

**3/23/77**

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Revised:  
3/23/77  
8:30 a.m.

THE PRESIDENT'S SCHEDULE

Wednesday - March 23, 1977

8:30 Dr. Zbigniew Brzezinski - The Oval Office.  
8:45 Mr. Frank Moore - The Oval Office.  
9:00 Senior Staff Meeting - The Roosevelt Room.  
9:45 (15 min.) Congressman John H. Dent. (Mr. Frank Moore) - Oval Office.  
10:30 Mr. Jody Powell - The Oval Office.  
11:00 Mr. Charles Schultze - The Oval Office.  
11:30 (20 min.) Meeting with the Presidential Commission to Hanol.  
(Dr. Zbigniew Brzezinski) - The Cabinet Room.  
12:00 Lunch with Vice President Walter F. Mondale, Secretary Harold Brown, Deputy Secretary Charles Duncan and the Joint Chiefs of Staff. (Dr. Zbigniew Brzezinski) - The Roosevelt Room.  
1:30 (40 min.) Presentation of Diplomatic Credentials.  
(Dr. Zbigniew Brzezinski) - The Oval Office.  
2:30 (20 min.) His Excellency R. F. Botha, Ambassador of South Africa.  
(Dr. Zbigniew Brzezinski) - The Oval Office.  
3:00 Secretary Cyrus Vance - The Oval Office.  
3:30 Mr. Bert Lance - The Oval Office.

THE PRESIDENT WAS SEEN.

Schöber - Austria  
Chanc. Kresky

Cañas - Chile  
Pinchet

Mbogua - Kenya  
Pres. Kenyatta

Kourouma - Guinea  
Pres. Toure

Kumene - Swaziland  
(Prince Phika)

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THE WHITE HOUSE  
WASHINGTON

March 23, 1977

Z. Brzezinski -

The attached was returned in  
the President's outbox. It is  
forwarded to you for appropriate  
handling.

Rick Hutcheson

Re: Prime Minister Callaghan

THE PRESIDENT HAS SEEN.

REUTER 1619

R264R 10280BYLCYNUIV

SNAP""""""GOVERNMENT-VOTE

2B AA, IND, LC

LONDON, MARCH 23, REUTER - PRIME MINISTER JAMES CALLAGHAN  
TONIGHT DEFEATED A PARLIAMENTARY MOTION OF NO CONFIDENCE IN  
HIS GOVERNMENT. THE VOTE WAS 322-298.  
REUTER 1620

good!  
J



THE WHITE HOUSE  
WASHINGTON

March 23, 1977

Stu Eizenstat

The attached was returned in the  
President's outbox. It is forwarded  
to you for appropriate handling.

Rick Hutcheson

cc: The Vice President  
Frank Moore  
Jack Watson  
Landon Butler

Re: The Minimum Wage

THE WHITE HOUSE  
WASHINGTON

ACTION	FYI
	MONDALE
	COSTANZA
	EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	WATSON

FOR STAFFING
FOR INFORMATION
✓ FROM PRESIDENT'S OUTBOX
LOG IN/TO PRESIDENT TODAY
IMMEDIATE TURNAROUND

ENROLLED BILL
AGENCY BILL
Staffing comments should go to Bert Carp within 48 hours; due from Carp to Staff Secretary next day.

CAB DECISION
EXECUTIVE ORDER
Staffing comments should go to Doug Huron within 48 hours; due from Huron to Staff Secretary next day.

ACTION	FYI
	ARAGON
	BOURNE
	✓ BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING
	KRAFT
	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	WELLS
	VOORDE

THE WHITE HOUSE  
WASHINGTON

ACTION	FYI	
	X	MONDALE
		COSTANZA
	X	EIZENSTAT
		JORDAN
		LIPSHUTZ
	X	MOORE
		POWELL
	X	WATSON

	FOR STAFFING
	FOR INFORMATION
X	FROM PRESIDENT'S OUTBOX
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		BOURNE
		BRZEZINSKI
	X	BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		GAMMILL
		HARDEN
		HOYT
		HUTCHESON
		JAGODA
		KING
		KRAFT
		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		WELLS
		VOORDE

*Stu -  
Go with 50  
index - begin in July  
base on mfg Straight-time  
earnings  
J.C.*

Table 3.--historical Relationship of Minimum Wage and  
Straight-Time Earnings in Manufacturing

Period	Minimum wage <u>a/</u>	Straight- time earnings	Relative minimum <u>b/</u> (percent)
1947 .....	0.40	1.15	34.8
1950 .....	0.75	1.37	54.7
1954 .....	0.75	1.72	43.6
1957 .....	1.00	1.97	50.8
1960 .....	1.00	2.18	47.5
1961 .....	1.00	2.24	45.9
1962 .....	1.15	2.30	51.3
1963 .....	1.15	2.36	50.0
1964 .....	1.25	2.42	53.0
1965 .....	1.25	2.48	51.7
1966 .....	1.25	2.57	50.4
1967 .....	1.25	2.68	48.6
1968 .....	1.40	2.84	52.2
1969 .....	1.60	3.01	56.3
1970 .....	1.60	3.20	53.2
1971 .....	1.60	3.39	50.0
1972 .....	1.60	3.59	47.2
1973 .....	1.60	3.83	44.6
1974 .....	1.60	4.13	41.8
1975 .....	2.10	4.57	50.8
1976 .....	2.30	4.90	50.3
1977 .....	2.30	5.24 <sup>c</sup>	46.9

a/ As of January of the year.

*52% = 1.62*

b/ Minimum wage as a percentage of straight-time hourly earnings in manufacturing, year ending September 30 to parallel the structure of the proposed Dent Bill.

Note: Effective dates of recent changes were Sept., 1963; Feb., 1967; Feb., 1968; and May, 1974.

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Relationship of Minimum Wage Rates Proposed  
Under Various Options to Straight-time Average Hourly  
Earnings in Manufacturing (AHE for the 12 months  
ending 3 months prior to the date of minimum wage increase)

	July 1977	Jan. 1978	July 1978	Jan. 1979	July 1979	Jan. 1980	July 1980	Jan. 1981	July 1981
<u>Dent Bill</u>									
Min. Wage	\$2.85	\$3.31		\$3.54		\$3.79		\$4.06	
% of AHE	56%	63%		63%		63%		63%	
<u>CEA Option</u>									
Min. Wage	\$2.30		\$2.45		\$2.62		\$2.81		\$3.00
% of AHE	45%		45%		45%		45%		45%
<u>DOL Recommendation</u>									
Min. Wage	\$2.70		\$3.10		\$3.34		\$3.57		\$3.82
% of AHE	53%		57%		57%		57%		57%
<u>Poverty Level Minimum Wage (Calendar Year Estimate)</u>	\$2.92	\$3.06	\$3.06	\$3.21	\$3.21	\$3.37	\$3.37	\$3.54	\$3.54

Relevant Labor Force StatisticsMillions of Workers

Total work force, February 1977	96.1
Number of wage and salary workers	79.4
Number of teenagers (16-19)	8.2
Number of unemployed teenagers	1.6
Percent of total number of teenagers	19.9
Employed persons, September 1976	89.2
Wage and salary workers	83.8
Covered by minimum wage - FLSA	51.9
Number of workers covered by FLSA paid less than \$2.70 an hour	6.7

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THE WHITE HOUSE  
WASHINGTON

March 23, 1977

Jack Watson  
Bert Lance  
Stu Eizenstat

The attached was returned in  
the President's outbox and is  
sent to you for your information  
and appropriate action.

Rick Hutcheson

Re: Drought Legislation

THE WHITE HOUSE  
WASHINGTON

ACTION	FYI
	MONDALE
	COSTANZA
	✓ EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	✗ WATSON

	FOR STAFFING
	FOR INFORMATION
	✗ FROM PRESIDENT'S OUTBOX
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	AGENCY BILL
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	CAB DECISION
	EXECUTIVE ORDER
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ACTION	FYI
	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING
	KRAFT
	✓ LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	WELLS
	VOORDE



THE WHITE HOUSE

WASHINGTON

3-23-77

To Watson  
Lance } re Drought  
Eizenstat } relief

I do not like to  
be presented with a  
ready made & costly bid.  
get item at the last  
minute & after many  
other people have been in-  
valued in it. I'll approve  
this but not in future.

J. C.

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THE WHITE HOUSE

WASHINGTON

3-23-77

To D. W. Brooks

I'm sorry, but I  
cannot accept your fine  
invitation to speak at  
Emory. With one special  
exception (Father Hestburgh  
at Notre Dame) I won't make  
any commencement addresses  
for the time being.

Sincerely,

Jimmy

p.s. If I get kicked out of  
the Baptist Church, I'll be  
looking for a home. J

---

THE WHITE HOUSE  
WASHINGTON

March 23, 1977

Stu Eizenstat  
Jack Watson

The attached was returned in  
the President's outbox. This  
copy is for your information.

Rick Hutcheson

Re: Farm Income & Price  
Support Levels for 1978



THE WHITE HOUSE  
WASHINGTON

ACTION	FYI
	MONDALE
	COSTANZA
	✓ EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	✓ WATSON

FOR STAFFING
FOR INFORMATION
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	JAGODA
	KING
	KRAFT
	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	✓ SCHULTZE
	SIEGEL
	SMITH
	WELLS
	VOORDE



THE WHITE HOUSE  
WASHINGTON

Mr. President:

Attached are the income support  
prices and loan rates that you  
requested from Charles Schultze  
today.

Rick (wds)

THE PRESIDENT HAS SEEN.  
THE CHAIRMAN OF THE  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON

2

March 22, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: CHARLIE SCHULTZE GCS

Attached are the income support prices and loan rates worked out by the Department of Agriculture to be consistent with a \$2.60 income support level for wheat. The \$2.60 support for wheat is roughly consistent with a 1-1/2 percent return on land. As you will notice, it reduces the rice income support level substantially below the level in the current bill - which is a very high level.

The loan rate for corn is reduced from \$2.10 under the original USDA to \$2.00 in the new proposal. This is necessary to keep a reasonable relationship between the income support level and the loan rate for corn.

Secretary Bergland, Stu Eizenstat and I met this afternoon. We all agree that the loan rates and income support levels contained in the Secretary's memo are consistent with the \$2.60 on wheat. As you know, the Secretary is not at all happy about having to defend that income support level. But he is aware that, under favorable weather conditions, the lower alternative will save about \$450 million a year.

(I've read this memo to Stu Eizenstat).

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DEPARTMENT OF AGRICULTURE  
OFFICE OF THE SECRETARY  
WASHINGTON, D. C. 20250

OK  
J

MEMORANDUM FOR: The President  
The White House

THROUGH: Charles L. Schultze, Chairman  
Council of Economic Advisers

SUBJECT: Farm Income and Price Support Levels for 1978

The income and market price support levels that are consistent with your directive of a \$2.60 per bushel maximum income support level for the 1978 wheat crop are as follows:

Income Support Prices

Commodity	1976 actual	1977 (1973 Act)	1978 Legislative Proposals		
			Admin.	Talmadge S. 275 Bill	Vetoed 1975 Bill
			Proposal*		
Wheat	2.29	2.47	2.60	2.91	3.81
Corn	1.57	1.70	1.75	2.28	2.62
Cotton	.43	.4758	.475	.511	.584
Rice	8.25	8.40	6.75	----	----

\* Based upon preliminary cost and yield data for 1976 and, therefore subject to minor adjustment.

Market Price Supports 1/

Commodity	1976 actual	1977 Proposed (Admin.)	1978 Legislative Proposals		
			Admin.	Talmadge S. 275 Bill	Vetoed 1975 Bill
			Proposal		
Wheat	2.25	2.25	2.25	2.18	3.07
Corn	1.50	1.75	2.00	1.71	2.18
Soybeans	2.50	3.50	4.00	4.02	3.64
Cotton	.37	.426	.51	.383	.486
Rice	6.19	6.19	6.19	----	----

1/ Minimum levels.

  
BOB BERGLAND  
Secretary

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for Preservation Purposes**

THE WHITE HOUSE  
WASHINGTON

March 23, 1977

Stu Eizenstat -

The attached was returned in the  
President's outbox and is sent to  
you for your information.

Rick Hutcheson

Re: Meeting with Congressman Dent  
on Minimum Wage Legislation



THE WHITE HOUSE  
WASHINGTON

ACTION	FYI	
		MONDALE
		COSTANZA
	y	EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON

	FOR STAFFING
	FOR INFORMATION
x	FROM PRESIDENT'S OUTBOX
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	EXECUTIVE ORDER
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		BOURNE
		BRZEZINSKI
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		CLOUGH
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		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
	✓	SCHULTZE
		SIEGEL
		SMITH
		WELLS
		VOORDE

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

March 22, 1977

MEMORANDUM FOR: THE PRESIDENT  
FROM: Stu Eizenstat *Stu*  
SUBJECT: Meeting with Congressman Dent on  
Minimum Wage Legislation

TALKING POINTS

Congressman Dent will be interested in an indication of your general thinking on the minimum wage issue. He has proposed a bill with the support of the AFL-CIO which would raise the minimum wage to 55% of the average hourly straighttime earnings of manufacturers workers (\$2.85) within 30 days of enactment. Starting in January 1978, this index would rise to 60% of average hourly manufacturing earnings (\$3.14 approximately). You may wish to raise the following points:

-- that you are generally in favor of indexing but would like advice on the merits of an average hourly wage index versus a consumer price index. (The entire Economic Policy Group approved indexing at its March 21, 1977 meeting).

-- you have not decided on the exact level to propose for the new minimum, but that you are very concerned with the inflationary and employment impacts of the levels proposed in the Dent bill. His analysis here would be helpful.

-- that his advice on the legislative and political prospects for minimum wage legislation will be helpful in reaching your decision.

-- that you know Ray Marshall will be testifying before his subcommittee this Thursday and that he will present the Administration's position.

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For your information, I believe it is unwise to oppose any change on the minimum wage. I believe we should propose a moderate, two-step increase in the minimum. I would favor increasing the minimum to 50% of average manufacturing wages initially (\$2.54) and subsequently raising this figure to 53% of average manufacturing wages (about \$2.80). This latter figure would then become the basis for indexing.

SCHULTZE MEMO



THE CHAIRMAN OF THE  
COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON

March 22, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: CHARLIE SCHULTZE CLS

SUBJECT: Economic Effects on Minimum Wage Legislation

I understand you are seeing Congressman Dent and Secretary Marshall Wednesday morning on minimum wages. The proposed bill of Congressman Dent would raise the minimum wage in two steps: first, to \$2.85 one month after passage; starting January 1, 1978, the minimum would be indexed at 60 percent of gross manufacturing earnings, yielding a minimum of approximately \$3.30

o Historically, the minimum wage has varied between 42 and 56 percent of straight-time earnings in manufacturing with an average since 1960 of 50 percent. The current \$2.30 is about 45 percent of the average.

o The estimated economic effects of this legislation are the subject of sharp disagreement between the Department of Labor and outside academic studies.

Estimates of the employment effects are particularly controversial.

- The Department of Labor, based on its own studies, believes they would be minimal.
- Outside academic studies, as compiled by CEA, indicate that the Dent Bill provisions would eliminate 170 to 340 thousand jobs (mainly for teenagers) with a larger shift of teenagers from full-time to part-time status.



U.S. GOVERNMENT PRINTING OFFICE

The impact on the price level consists of:

1. an indisputable 0.7 percent direct increase in the nation's overall wage bill; plus
2. indirect effects on wages of noncovered employees and those near the minimum and
3. a feedback effect, in which higher prices lead to still further wage increases through escalator provisions and other routes.

The Department of Labor believes that only the first effect will occur, leading to a 0.4 percent rise in the price level. CEA estimates of the indirect and feedback effects, based on outside studies, suggest a total price increase of 1.8 to 2.0 percent spread over two to three years.

o The increases in the minimum wage for services and retail trade would be particularly large.

-- These industries were first covered by a reduced minimum wage of \$1.00 hour in 1967; between 1967 and 1978, their minimum would rise 214 percent under the Dent Bill compared to 104 percent increase in average wages over the same period.

-- These industries account for 70 percent of teenage employment.

o A smaller but still significant increase in the minimum to, say, \$2.70 would still involve major economic costs according to CEA's compilation of academic studies.

-- a job loss of 100 - 200 thousand jobs.

-- an increase in the price level of 1.0 to 1.2 percent.

- If the academic studies are correct, the increase in inflation over the next several years would exceed the potential declines that we might achieve from the proposed anti-inflation program.



THE WHITE HOUSE  
WASHINGTON

March 22, 1977

The Vice President  
Bert Lance  
Stu Eizenstat  
Jack Watson  
Frank Moore

The attached is forwarded to  
you for your information.

Rick Hutcheson

Schultze memo 3/22 re Econmic Effects  
on Minimum Wage Legislation.



THE WHITE HOUSE  
WASHINGTON

ACTION	FYI	
	X	MONDALE
		COSTANZA
	X	EIZENSTAT
		JORDAN
		LIPSHUTZ
	X	MOORE - has copy already
		POWELL
	X	WATSON

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
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		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		WELLS
		VOORDE

THE WHITE HOUSE

WASHINGTON

March 23, 1977

MEMORANDUM TO: Rick Hutcheson  
FROM: Jack Watson  
RE: MINIMUM WAGE LEGISLATION

Attached are memoranda for the President from Mike Blumenthal, Ray Marshall and Stu Eizenstat on the Minimum Wage Legislation. There is a separate memorandum from Charles Schultze on the subject which the President has already read.

Stu and I have both recommended that Blumenthal, Schultze and Marshall meet briefly with the President this afternoon rather than have him wade through all of the attached documents. A meeting would save time and produce a more informed result.

Attachments

## MEMORANDUM

## THE WHITE HOUSE

WASHINGTON

INFORMATION

23 March 1977

TO: THE PRESIDENT  
FROM: RICK HUTCHESON *Rich*  
SUBJECT: Summary of Memoranda Not Submitted

1. LIPSHUTZ MEMO informing you that he has investigated the private marketing of the "Carter" name, and ascertained that the matter is best handled by a private attorney rather than a government attorney. Lipshutz has consulted with Mr. Kirbo, who will investigate the matter and determine what action could be taken to stop or restrain the action. Lipshutz will keep you advised. *e*
2. FRANK PRESS MEMO regarding your energy message. He suggests that he organize a small subgroup of four of the best people from the Nuclear Energy Policy Study Group that you met with on Monday, to act as a sounding board, a source of ideas otherwise overlooked, and as critical reviewers for your energy message. Press adds that the people he has in mind for the "subgroup" have served in Government, and would know about the constraints placed on them if they are to contribute at this level.

approve ☒ disapprove ☐*but check E Schleringer*

3. BRZEZINSKI MEMO asking if you wish a reply prepared to the letter from Paul Nitze which you earlier forwarded to Brzezinski and Warnke.

yes ☐ no ☒

4. STOCK COLEMAN MEMO noting that the Federal Preparedness Agency (FPA) of the General Services Administration is responsible for maintaining the continuity of the Federal government in times of national emergency. Coleman believes that the FPA is not well prepared to do this at the present time. He recommends various changes in the existing emergency plan, and a high priority study of FPA. *Stu & Coleman* Stu has reviewed the memo, and believes that further staffing is needed. Stu recommends that a small group representing his staff, DOJ, OMB, NSC and GSA meet to examine this question and report back.

approve ☐ disapprove ☒*Have one good person do preliminary check first J.C.*

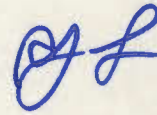
THE WHITE HOUSE

WASHINGTON

March 22, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT LIPSHUTZ



SUBJECT: Private Marketing of the "Carter" Name

Pursuant to your request on March 7, I checked into this matter and ascertained that it would be preferable for the matter to be handled by a private attorney rather than a government attorney.

Therefore, I discussed it with Charles Kirbo when he was in town a few days ago. He has taken the information back to Atlanta and will ascertain what action could be taken to stop or restrain this action.

I will keep you advised.



THE WHITE HOUSE  
WASHINGTON

March 24, 1977

Frank Press -

Your Memorandum of March 22  
re Energy

The President reviewed the thoughts expressed in your memorandum of March 22 and approved the suggestion that you organize a small subgroup of four of the best people from the Nuclear Energy Policy Study Group to act as a sounding board, a source of ideas otherwise overlooked, and as critical reviewers for your energy message but requested that this be checked with Jim Schlesinger before implementation.

Rick Hutcheson

cc: Jim Schlesinger

## THE WHITE HOUSE

WASHINGTON

INFORMATION

23 March 1977

TO:

THE PRESIDENT

FROM:

RICK HUTCHESON *RH*

SUBJECT:

Summary of Memoranda Not Submitted

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2. FRANK PRESS MEMO regarding your energy message. He suggests that he organize a small subgroup of four of the best people from the Nuclear Energy Policy Study Group that you met with on Monday, to act as a sounding board, a source of ideas otherwise overlooked, and as critical reviewers for your energy message. Press adds that the people he has in mind for the "subgroup" have served in Government, and would know about the constraints placed on them if they are to contribute at this level.

approve ☒ disapprove ☐*but check E Schlesinger*

3. BRZEZINSKI MEMO asking if you wish a reply prepared to the letter from Paul Nitze which you earlier forwarded to Brzezinski and Warnke.

yes ☐ no ☒

4. STOCK COLEMAN MEMO noting that the Federal Preparedness Agency (FPA) of the General Services Administration is responsible for maintaining the continuity of the Federal government in times of national emergency. Coleman believes that the FPA is not well prepared to do this at the present time. He recommends various changes in the existing emergency plan, and a high priority study of FPA. Stu has reviewed the memo, and believes that further staffing is needed. Stu recommends that a small group representing his staff, DOJ, OMB, NSC and GSA meet to examine this question and report back.

approve ☐ disapprove ☒*Have one good person do preliminary check first J.**Stu Coleman CHT*

THE WHITE HOUSE  
WASHINGTON

Note to Press:  
OK w/ Pres provided  
you first check  
it w/ Schlesinger



THE WHITE HOUSE

WASHINGTON

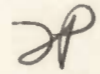
March 22, 1977

MEMORANDUM FOR

THE PRESIDENT

FROM

Frank Press



Your energy message may be one of the most important statements of your Presidency. I believe that you need the best advice that the country has to offer, taking into account the pragmatic requirements of confidentiality and not being saturated by too many opinions.

I would like to suggest that I organize a small subgroup of the Nuclear Energy Policy Study Group that you received on Monday, to act as a sounding board, a source of ideas which may have been overlooked, and critical reviewers for your energy message. Technology and the other issues discussed with you will, of necessity, form an important component of your energy policy. I have in mind about four of the best people from the Study Group, most of whom have served in Government before and who would know about the constraints placed upon them if they are to contribute at this level.

This procedure would be consistent with your expressed view of getting the best people in the country, inside or outside of Government, to help with the major issues that come before you.



THE WHITE HOUSE  
WASHINGTON

March 24, 1977

Z. Brzezinski

The President indicated that  
no reply is necessary for  
Paul Nitze's letter of March 16.

Rick Hutcheson

## MEMORANDUM

## THE WHITE HOUSE

WASHINGTON

INFORMATION

23 March 1977

TO:

THE PRESIDENT

FROM:

RICK HUTCHESON *Rick*

SUBJECT:

Summary of Memoranda Not Submitted

1. LIPSHUTZ MEMO informing you that he has investigated the private marketing of the "Carter" name, and ascertained that the matter is best handled by a private attorney rather than a government attorney. Lipshutz has consulted with Mr. Kirbo, who will investigate the matter and determine what action could be taken to stop or restrain the action. Lipshutz will keep you advised. *9/*

2. FRANK PRESS MEMO regarding your energy message. He suggests that he organize a small subgroup of four of the best people from the Nuclear Energy Policy Study Group that you met with on Monday, to act as a sounding board, a source of ideas otherwise overlooked, and as critical reviewers for your energy message. Press adds that the people he has in mind for the "subgroup" have served in Government, and would know about the constraints placed on them if they are to contribute at this level.

approve ☒ disapprove ☐*but check E Schlesinger*

3. BRZEZINSKI MEMO asking if you wish a reply prepared to the letter from Paul Nitze which you earlier forwarded to Brzezinski and Warnke.

yes ☐ no ☒

4. STOCK COLEMAN MEMO noting that the Federal Preparedness Agency (FPA) of the General Services Administration is responsible for maintaining the continuity of the Federal government in times of national emergency. Coleman believes that the FPA is not well prepared to do this at the present time. He recommends various changes in the existing emergency plan, and a high priority study of FPA. *Stu* has reviewed the memo, and believes that further staffing is needed. *Stu* recommends that a small group representing his staff, DOJ, OMB, NSC and GSA meet to examine this question and report back.

approve ☐ disapprove ☒*Have one good person do preliminary check first J.C.**Stu  
& Coleman  
etc*

THE WHITE HOUSE  
WASHINGTON

Note  
to Br 2  
Pres doesn't  
want a  
prepared  
reply



THE WHITE HOUSE  
WASHINGTON

March 24, 1977

Stu Eizenstat -

Re: Federal Preparedness Agency

The problems mentioned in the attached memorandum from Stock Coleman were mentioned to the President, as well as your suggestion that a small group representing your staff, DOJ, OMB, NSC and GSA meet to examine this question and report back.

The President disapproved this recommendation with the comment "Have one good person do preliminary check first."

Please arrange for appropriate action.

Rick Hutcheson



THE WHITE HOUSE  
WASHINGTON

March 24, 1977

Stock Coleman -

Federal Preparedness Agency

The thoughts expressed in your memorandum of February 28 on the above subject were brought to the attention of the President. Stu Eizenstat has been asked to make a preliminary check of this problem.

Rick Hutcheson

cc: Bert Lance

## MEMORANDUM

## THE WHITE HOUSE

WASHINGTON

INFORMATION

23 March 1977

TO:

THE PRESIDENT

FROM:

RICK HUTCHESON *Rich*

SUBJECT:

Summary of Memoranda Not Submitted

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approve ☒disapprove ☐*but check E Schlessinger*

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4. STOCK COLEMAN MEMO noting that the Federal Preparedness Agency (FPA) of the General Services Administration is responsible for maintaining the continuity of the Federal government in times of national emergency. Coleman believes that the FPA is not well prepared to do this at the present time. He recommends various changes in the existing emergency plan, and a high priority study of FPA. *Stu* has reviewed the memo, and believes that further staffing is needed. *Stu* recommends that a small group representing his staff, DOJ, OMB, NSC and GSA meet to examine this question and report back.

approve ☐disapprove ☒*Have one good person do preliminary check first J.C.**Stu  
& Coleman  
CTD*

THE WHITE HOUSE  
WASHINGTON

3/11/77

TO: Rick Hatcher

For Your Information: \_\_\_\_\_

For Appropriate Handling: ✓

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

RDL  
Robert D. Linder





EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

February 28, 1977

MEMORANDUM TO:: PRESIDENT CARTER  
THRU: BERT LANCE *Bu- Jack*  
FROM: STOCK COLEMAN  
SUBJECT: Federal Preparedness Agency

Mr. President, the Federal Preparedness Agency received its authority through Executive Order 11921. This order transfers the responsibilities which were once preformed by the Office of Emergency Preparedness to the Federal Preparedness Agency which is a subordinate agency of the General Services Administration.

The Federal Preparedness Agency under the above mentioned Executive Order assumes an unbelievable amount of authority during times of stated emergency. They are responsible for almost every facet of support function that our country would need in the event of a disaster or emergency.

However, as the Federal Preparedness Agency is now operating, I don't believe that our country could function in an orderly fashion should we ever have to depend on their operation.

Their catalog of fuel producing plants, rail lines, deep sea ports, etc. is outdated ten to fifteen years.

The functionary lines which would have to be used between agencies and the private sector are non existent.

Not trying to be an alarmist, however, I would like to bring to your attention the fact that this agency needs our most prompt attention.



Also, one of the other functions that this agency is responsible for is the continuity of government.

Again, should a situation arise whereas the senior governmental officials of the country would have to be evacuated and dispersed, we would witness, I am sure, complete chaos.

The Federal Preparedness Agency is responsible for briefing each Cabinet Level Officers on the continuity plans should an emergency be declared by the President or should an assassination, successful or not, be attempted or any Senior Government Official. At this time, they would not know what steps they themselves should take.

Only two Cabinet Level people have been contacted to date, Director Lance and Attorney General Bell.

I would like to take this opportunity to urge you to order a high priority study of the Federal Preparedness Agency, also I would like to suggest to you that several functions be included as part of an emergency or continuity of Government Plan.

1. That all Cabinet Level Officials, including H. Jordan, J. Powell, B. Lipschutz, C. Kirbo, and Billy and Lillian Carter be included on the list for continuity of Government Plans.
2. That all of the above, with the exception of L. Carter be briefed as soon as possible, so as to make them aware of what is expected of them, should an emergency situation arise.
3. Upon declaration by the President that an emergency exist, all Senior Officials will immediately come under protective custody of the Justice Department, not only for protection but also for communications, this to include all named in part one.

4. That in the event our country ever be the site for an organized terrorist campaign, or an attempt is made on the President, Vice President, or other Senior Officials, that the Attorney General have the authority to place all of the above named under protective custody immediately.
5. That the Secret Service, the State Department or any other agency, immediately, notify by voice or teletype the Attorney General in the event that any attempt is made against any Senior Government Official - without delay so that emergency procedures can be instituted thereby, guaranteeing and orderly continuity of Government.

With the unrest in Africa, and the prospect of normalization of ties with Cuba a daily topic, terrorist activity may occur at anytime. We need to take steps to insure the safety of our country, by insuring the safety of our Government Leaders.

THE WHITE HOUSE  
WASHINGTON

Note to sta to do  
preliminary check

Note to Coleman  
advising him of  
status.

8  
MEMORANDUM

THE WHITE HOUSE

WASHINGTON

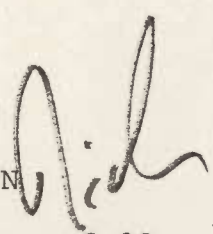
INFORMATION

14 March 1977

TO:

STOCK COLEMAN

FROM:

RICK HUTCHESON 

SUBJECT:

Your Memorandum of 28  
February Regarding Federal  
Preparedness Agency

Your memorandum, "Federal Preparedness Agency," which was received by my office on March 11, is being held by my office at the request of Stu Eizenstat pending further work by his staff on the matter.

If you have further questions on this matter, please check with Stu, or Lynn Daft of Stu's staff. Thanks.

cc: Stu Eizenstat  
Lynn Daft



THE WHITE HOUSE

WASHINGTON

Date: March 11, 1977

MEMORANDUM

FOR ACTION:

The Vice President  
Stu Eizenstat \* Jack Watson  
Hamilton Jordan  
Bob Lipshutz  
Frank Moore  
Jody Powell

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Stock Coleman memo 2/28/77 re Federal  
Preparedness Agency.

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME: 3:00 P.M.

DAY: Monday

DATE: March 14, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment

Please note other comments below:

\*Note: Please have your staff prepare summary  
along with your recommendations. Thanks.

Rick Hutcheson

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required  
material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE  
WASHINGTON

*have your stuff*  
*have your stuff*

*NOTE TO  
STW - PLS. REMOVE  
SUMMARY ALONG  
w/ your recommendations  
Thanks  
R10*

ACTION	FYI	
X		MONDALE
		COSTANZA
X		EIZENSTAT
X		JORDAN
X		LIPSHUTZ
X		MOORE
X		POWELL
X		WATSON

X	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ENROLLED BILL
	AGENCY BILL
	Staffing comments should go to Bert Carp within 48 hours; due from Carp to Staff Secretary next day.

	CAB DECISION
	EXECUTIVE ORDER
	Staffing comments should go to Doug Huron within 48 hours; due from Huron to Staff Secretary next day.

ACTION	FYI	
		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		GAMMILL
		HARDEN
		HOYT
		HUTCHESON
		JAGODA
		KING
		KRAFT
		LANCE
		LINDER
		MITCHELL
		POSTON
		PRESS
		B. RAINWATER
		SCHLESINGER
		SCHNEIDERS
		SCHULTZE
		SIEGEL
		SMITH
		WELLS
		VOORDE



Date: March 11, 1977

MEMORANDUM

FOR ACTION:

FOR INFORMATION:

The Vice President  
Stu Eizenstat \* Jack Watson  
Hamilton Jordan  
Bob Lipshutz ✓  
Frank Moore  
Jody Powell

FROM: Rick Hutcheson, Staff Secretary

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Other:

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☐ No comment.

Please note other comments below:

\*Note: Please have your staff prepare summary along with your recommendations. Thanks.

Rick Hutcheson

*I suggest OMB. on GSA. do <sup>the</sup> find <sup>and</sup> not come men  
look force.  
#4. Why should A.G. have authority over other cabinet people?  
#1. Why these people? Why not just know staff?*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)



Date: March 11, 1977 52

MEMORANDUM

FO ACTION:

The Vice President  
Stu Eizenstat \* Jack Watson  
Hamilton Jordan  
Bob Lipshutz  
Frank Moore  
Jody Powell

FOR INFORMATION:

*Mark  
Please comment*

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☒ I concur.

☐ No comment.

Please note other comments below:

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Rick Hutcheson

*Concur with reservations. Study should lead to specific reorganization to provide linkage + structure between CPA, DOD, Justice, GSA + EOP. The problem is larger than 6 people not knowing what to do at time of crisis. We do need protection but in the context of coherent contingency planning*

*Steg*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)





EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

February 28, 1977

MEMORANDUM TO:: PRESIDENT CARTER  
THRU: BERT LANCE *Ba-*  
FROM: STOCK COLEMAN *Jack*  
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4. That in the event our country ever be the site for an organized terrorist campaign, or an attempt is made on the President, Vice President, or other Senior Officials, that the Attorney General have the authority to place all of the above named under protective custody immediately.
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With the unrest in Africa, and the prospect of normalization of ties with Cuba a daily topic, terrorist activity may occur at anytime. We need to take steps to insure the safety of our country, by insuring the safety of our Government Leaders.

THE WHITE HOUSE  
WASHINGTON

March 14, 1977

Rick Hutcheson:

I believe additional information is required before this goes to the President and suggest that the group described in my recommendation be charged with gathering it.

Stu



THE WHITE HOUSE

WASHINGTON

March 14, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT  
LYNN DAFT

*Stu*  
*lyn*

SUBJECT:

Stock Coleman Memorandum on the  
Federal Preparedness Agency

SUMMARY

The Coleman memorandum notes that the Federal Preparedness Agency (FPA) of the General Services Administration is responsible for maintaining the continuity and integrity of the Federal government under conditions of a national emergency. The author feels that the FPA is not sufficiently well prepared to carryout these responsibilities and that actions should promptly be taken to correct the situation. He recommends: (a) a high priority study of FPA and (b) changes in the existing emergency plan to include selected Presidential assistants and members of the Carter family and to authorize the Justice Department to place "senior government officials" under protective custody when an emergency is declared.

RECOMMENDATION

I believe this requires additional internal staffing before any decisions are made and therefore recommend that a small group representing Justice, OMB, NSC, GSA and my staff be asked to examine this question and report back promptly.

Date: March 11, 1977

MEMORANDUM

## FOR ACTION:

The Vice President  
Stu Eizenstat,\* Jack Watson  
Hamilton Jordan  
Bob Lipshutz  
Frank Moore  
Jody Powell

## FOR INFORMATION:

184

Xc Corp  
Daff

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Stock Coleman memo 2/28/77 re Federal Preparedness Agency.

YOUR RESPONSE MUST BE DELIVERED  
TO THE STAFF SECRETARY BY:

TIME: 3:00 P.M.

DAY: Monday

DATE: March 14, 1977

## ACTION REQUESTED:

☒ Your comments

Other:

## STAFF RESPONSE:

☐ I concur.☐ No comment.

Please note other comments below:

\*Note: Please have your staff prepare summary  
along with your recommendations. Thanks.

Rick Hutcheson

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required



65  
THE WHITE HOUSE

WASHINGTON

March 14, 1977

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STU EIZENSTAT  
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THE WHITE HOUSE  
WASHINGTON

March 23, 1977

Z. Brzezinski -

Report of Commission on Americans  
Missing & Unaccounted for in Southeast  
Asia

The attached report was returned in the  
President's outbox.

If a Presidential acknowledgment is  
appropriate, please prepare and return  
to this office for signature.

Rick Hutcheson



THE WHITE HOUSE  
WASHINGTON

3.23.77

TO.

Rick Hutcheson

For Your Information: \_\_\_\_\_

For Appropriate Handling: \_\_\_\_\_

NSC should be asked if a  
Pres. ack is appropriate  
+ if so, would they draft

RDL  
Robert D. Linder

Botha  
Shen

Situation grave

- US attitude lacks depth

- US uses S Africa as target

- S Africa different Nat/Rhodesia

- Africans have suffered

- No desire to rule blacks  
ready to terminate rule  
over blacks- 2000000 -> Botswana  
1 mil Swazis- S.A. present proposal on SWA  
would have been accepted  
3 yrs ago- UN has certain threat dimension  
SWA can come in if in peace  
Tumballe

THE WHITE HOUSE

Smith - guarantee black majority  
in 2 years

Mingake - no - unless people want him

ok { Botswana Khama  
Kamuk  
Machel

Nyere - unpredictable

Electrostatic Copy Made  
for Preservation Purposes



*Please  
forward to  
the President  
JW*

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE  
WASHINGTON, D. C. 20201

*Susan  
hold  
J*

THE PRESIDENT WAS SEEN.

March 23, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: JOE CALIFANO *JC*

Attached for our Friday meeting on welfare reform are:

1. A staff memorandum summarizing basic information on welfare reform issues and income maintenance programs;
2. The full text of the five major papers on welfare that the Welfare Consulting Group staff has developed to date.

From my point of view, the main purpose of Friday's meeting is to report briefly to you on the work done to date, to provide a general profile of the poverty population, to describe the cash transfer and in-kind programs presently in place, and to discuss the process for formulating a reform proposal. In addition, while it is premature for any decisions, I would like to get your tentative views on some of the initial issues we will confront in developing specific alternatives:

-- Which government programs should be included in "welfare reform?" AFDC, the Supplemental Security Income program, and food stamps are likely candidates. Other possibilities include some unemployment insurance extensions (beyond 26 weeks? beyond 39 weeks?), housing assistance, the means-tested veterans compensation program.

-- What is the level of income that should be set as the national standard? Should there be variations for different regions and/or metropolitan areas? Who should pick up the cost of those variations - the federal government or the states?

-- Should we cover intact families, as well as single parent families?

Electrostatic Copy Made  
for Preservation Purposes

*returned 4/4/77*



TABLE OF CONTENTS

SUMMARY

PAPER #1	<u>AN OVERVIEW OF THE INCOME SECURITY SYSTEM</u> <u>ITS SYSTEM</u>
PAPER #2	<u>THE INCOME SECURITY SYSTEM: PURPOSES,</u> <u>CRITERIA, AND CHOICES</u> <u>SES.</u>
PAPER #3	<u>THE LOW INCOME POPULATION: WHAT WE KNOW</u> <u>ABOUT IT -- A STATISTICAL PROFILE</u> <u>KNOW</u>
PAPER #4	<u>CRITICAL ANALYSIS OF THE WELFARE SYSTEM</u>
PAPER #5	<u>OUTLINE: LEADING WELFARE REFORM OPTIONS</u> <u>(REVISED DRAFT ONE)</u>

APPENDIX A

PROGRAM DESCRIPTIONS

APPENDIX B

GLOSSARY

MARCH 1977

-- Since more than 90% of the people on AFDC are mothers and single parent families and their children, to what extent do we want to encourage them to work or require them to work?

-- To the extent we can identify the "employables" by law, are we prepared to guarantee them public service jobs if there are inadequate opportunities in the private sector? This may involve expensive training programs and public service jobs -- as many as three million if we guarantee everyone a public service job at salaries between \$6,000 and \$8,000 per person per year.

These are difficult questions with serious economic, political and human implications. We do not need decisions on them, but we do need any thoughts you may have.

Encl

## SUMMARY

### Introduction

The five papers collected in this book have been prepared to provide basic background information essential to devising a welfare reform proposal. They cover:

- (1) The nature of the existing \$49 billion "welfare system" and other government income subsidy programs;
- (2) The characteristics of the low-income population that any proposal will be designed to assist;
- (3) The shortcomings of existing programs;
- (4) The potential goals of welfare reform;
- (5) The general nature of different approaches to welfare reform.

This paper provides a summary of the background material in preparation for Friday's briefing.

### Overview of the Income Security System

Economists identify four types of government programs that affect the ability of Americans to support themselves either through their own efforts or through government assistance:

- . Employment-related programs: macro-economic policy, public service employment, regulation of labor, markets, education, and manpower programs;
- . Savings-related programs, e.g., incentives in the tax system such as the mortgage interest and property tax deductions, government reinsurance of savings and loans;
- . Social insurance programs (see Table 1); and
- . Income assistance programs (see Table 1).



TABLE 1

GOVERNMENT TRANSFER PROGRAMS\*

Major Social Insurance Programs (Not Income-Tested)

<u>Program</u>	<u>1977 Expenditures (billions)</u>
Old Age-Survivors Insurance	\$71.0
Unemployment Insurance	14.3
Medicare	21.0
Disability Insurance	10.9
Workmen's Compensation	6.7
Veterans Compensation	5.7
Railroad Retirement	3.6
Black Lung	1.0
<u>Subtotal:</u>	<u>\$134.2</u>

Major Income Assistance Programs (Income-Tested)

<u>Program</u>	<u>1977 Expenditures (billions)</u>
Aid to Families with Dependent Children	\$10.3
Supplemental Security Income	6.3
Medicaid	17.2
Food Stamps	4.5
General Assistance	1.3
Housing Assistance	3.0
Veterans Pensions	3.1
Earned Income Tax Credit	1.3
Basic Opportunity Grants	1.8
<u>Subtotal:</u>	<u>\$48.8</u>

GRAND TOTAL: \$183.0 billion

---

\* The Appendix to Paper No. 1 in this briefing book includes a description of each of these programs.

Discussions of welfare reform have traditionally focused entirely on the means-tested assistance programs (eligibility dependent on low income) and to a lesser degree on the social insurance programs (eligibility conditioned on previous work and the occurrence of an event such as unemployment or retirement, e.g., Unemployment Insurance and Social Security). "Welfare programs" represent only one portion of government transfer programs (about 25%) and an even smaller part of all government programs that affect income security.

Diversity dominates the details of existing welfare programs. The programs vary in virtually every respect: the forms of benefits, the definition of an eligibility and of need, and the divisions of functions between the Federal and State governments. The programs have been enacted piecemeal over the last 50 years, each perhaps making a good deal of sense in isolation, but no clear and consistent rationale underlies the existing system.

Nonetheless, one generalization can be made about this collection of programs. By enacting them, Congress and the state legislatures have already embraced the concept of a national minimum income:

- . The Food Stamp Program provides an income floor through in-kind benefits for all American households.
- . The Supplemental Security Income Program (SSI) provides a cash floor for the aged, blind, and disabled.
- . AFDC, Unemployment Insurance extensions, and general assistance provide cash income for a substantial fraction of the low-income population.

In existing programs, the assignment of rulemaking, administration, and payment responsibilities differs widely from program to program:

- . Social Security and Medicare programs are administered and funded by the Federal Government; Unemployment Insurance and Workmen's Compensation are run by the States.
- . In the AFDC program, policymaking and financial responsibility are shared by the States and the Federal Government; the program is administered by the States.



- . In the SSI program, policymaking and primary administrative responsibility lies with the Federal Government; the basic benefit is paid by the Federal Government and is supplemented by some of the States.
- . In the Food Stamp program, policymaking and financial responsibility rest with the Federal Government, but the States administer the program.

The inconsistent assignment of governmental responsibilities in the present programs has led predictably to inconsistent policies and has produced much of the discontent with the existing system. While fiscal relief represents the main demand for reform from State and local government, reform proposals also must address the other elements of federal-state authority over welfare programs: the power to set standards and the duty to administer the programs.

#### The Low Income Population and the Income Security System

In assessing potential changes of the welfare system, it is important to recognize that current assistance programs have a major impact on the low-income population.

- . Current programs move a substantial proportion of the population above official poverty thresholds:
  - In FY 1976, before government transfers, 20 million households (25%) were poor.
  - After cash and in-kind transfers, 5.4 million households (7%) were poor.
- . The 5.4 million households below the poverty line after receiving government aid fall into distinct categories:
  - AFDC families in low-benefit States (many of them in the South);
  - Two-parent families ineligible for AFDC;
  - Unattached, non-aged individuals and childless couples not eligible for any federal categorical programs;
  - Eligible households that fail to apply for government assistance.



To a large extent, many welfare reform proposals are designed to extend coverage and improve the adequacy of the systems to assist these portions of the poor population.

- . Many households participate in many welfare programs:

Eligibility for one income security program is often tied to eligibility for another. For instance, eligibility for AFDC or SSI makes a household automatically eligible for Food Stamps and Medicaid. Data from 1972 indicate that 40 percent of households participating in income security programs benefitted from two or more programs and that 25 percent were enrolled in three or more. As participation in programs cumulates, loss of eligibility may result in a dramatic decline in income.

#### Characteristics of the Low Income Population

Constantly Changing - The composition of the poverty population is fluid with many households moving in and out of poverty over time. A study conducted over a six-year period between 1967 and 1972 indicated that 8-11 percent of the population were poor in each year; 21 percent were poor in at least one year; 7 percent had average annual income for the six-year period below the poverty line; and less than 3 percent were poor in every year.

A substantial proportion of the heads of households that were poor in every year or that had average incomes below the poverty line had eight years of education or less, lived in rural areas (particularly in the South), and/or were non-white.

Work Records - The overwhelming proportion of poor, non-aged, able-bodied heads-of-households work at least part of the time and/or part of the year. These work records are particularly characteristic of male heads of households.

In 1975, 85 percent of the 2.6 million non-aged male, able-bodied heads-of-household who were poor worked at least some during the year, and 29 percent worked year-round and full-time. In the same year, 49 percent of the 2.8 million women comparably situated, worked at least some of the year, but only 8 percent worked the

full-year, full-time. The temporary nature of many low-wage jobs is illustrated by the fact that 37 percent of the men and 21 percent of the women worked full-time, but for only part of the year.

Impact of Economic Growth - The performance of the economy exerts a strong impact on the number of persons in poverty. In particular, households with male heads under 65 benefit from high rates of economic activity.

The number of poor people declined substantially in the high growth years of the late 1960's, but the trend was reversed during the recessions of the 1970's. For example, from 1973 to 1975, poverty increased 11.1 percent to 12.3 percent of the population.

### Goals and Criteria

Differences between the various reform proposals under consideration may be highlighted by measuring the proposals against goals and criteria that welfare programs should ideally be designed to meet. An income security program should:

- . provide access to income sufficient to meet basic needs;
- . protect against catastrophic expenses such as those for medical care;
- . protect against interrupted earnings due to disability, unemployment, retirement, or death of the working head of household.

The specific criteria that we are using to analyze alternative proposals include the following:

- . Adequacy: the degree to which total benefits provided by the programs in the system enable recipients to achieve the minimum income necessary to live in a manner "compatible with decency and health" (in the language of many state welfare laws);



- Equity: the degree to which the program provides equal assistance to persons with equivalent needs (horizontal equity) and the degree to which persons in the society are rewarded for their own effort (vertical equity);
- Target Efficiency: the degree to which program benefits are concentrated on the target group, for example, the poor as opposed to the non-poor;
- Work Incentive: the degree to which program design rewards recipient work effort and encourages self-sufficiency;
- Family Stability: the degree to which program design reinforces family ties and avoids incentives for family dissolution;
- Administrative Efficiency: the cost at which program objectives are achieved and the degree to which programs are coordinated to facilitate management and responsiveness to the needs of the poor;
- Coherence and Control: the degree to which the income security system's component programs are coordinated and the degree to which the system as a whole is subject to the policy and budgetary control of government; and
- Decent Treatment of Recipients: the degree to which those who need assistance are treated with dignity, compassion, and respect.



### Problems with the Current System

Aside from fiscal relief, the major force motivating welfare reform proposals today is the popular conviction that the existing system represents a hodge-podge of programs that ill-serves those in need and often provides taxpayers' funds to ineligible, non-poor people. Certainly the defects are legion. The highlights:

Inadequate Benefits - The AFDC basic benefits (as set by the states) plus Food Stamps exceed the poverty line in only four states. In 24 states, the combined benefits of the two programs amount to less than three-fourths of the poverty line.

Incomplete and Inequitable Coverage - Many needy families and individuals are not covered: the working poor, two-parent families, non-aged individuals, childless couples are, in general, excluded from federal benefits. Inequities are then magnified when these same groups find it more difficult to qualify for cash, housing, and medical assistance.

Crippling Work Disincentives - In 22 states, AFDC benefits plus Food Stamps exceed the earnings of a full-time worker at the minimum wage. If the worker is ineligible for any additional benefits, he will be less well off than a similarly situated person on welfare.

For the many households eligible for more than one welfare program, almost no incentive to work exists. Each of several programs will reduce benefits on the basis of the worker's additional income--leaving the worker little better off than if he had stayed home.

Ineffective Work Requirements - The work tests in most current income assistance programs amount to little more than work registration, and are largely ineffective in putting recipients to work. Work tests which do not provide jobs disappoint the expectations of both recipients who want to work and the great majority of taxpayers who believe that persons who can work should work.

Much Money is Misdirected - The current system does not concentrate benefits on the very poorest households. Many poor persons are not categorically eligible for cash assistance; and many of those eligible for benefits are not poor. For example, 35 percent of poor families are not eligible for either AFDC or SSI; and 58 percent of the persons eligible for AFDC and SSI are not poor. //

Family Stability is Discouraged - The current system does not promote family stability. By limiting cash assistance in the AFDC program generally to single-parent families, the program provides an incentive not to marry. |

Fraud and Abuse - The current system has both failed to prevent glaring instances of fraud and of non-needy individuals receiving benefits. It has also subjected recipients to invasions of privacy and enormously complicated eligibility checks. |

#### Leading Welfare Reform Options

The welfare reform options currently under consideration may be grouped into two categories:

- 1) Approaches that retain and expand upon current income assistance programs;
- 2) Reforms which substantially alter the present framework of the income security system.
  - a) Jobs/Cash proposals that provide jobs to those expected to work and cash to those not expected to work;
  - b) Triple Track options that provide income supplementation to workers with insufficient earnings, employment assistance, and jobs to recipients deemed able to work, but who are unemployed, and basic cash grants to households with no employable member; and
  - c) Proposals that provide cash assistance to all needy households. (A work requirement may or may not be imposed as part of these plans.)



Approaches Which Build on Existing Programs: A wide variety of proposals fit into this category. In the jargon of welfare reformers and economists, these approaches are often called "incrementalism." A decision to expand current programs and to use existing administrative structures would reflect a political judgment that Congress is unlikely to enact comprehensive reform or, if it does, the benefits would be reduced substantially for many current recipients.

- . Modest Changes and Expansion of AFDC and Food Stamps: This approach retains categorical coverage (only specified categories of individuals are eligible), but includes more, though not all, two-parent families; requires states to follow more uniform procedures in establishing benefit levels and determining eligibility; improves administration; and alters somewhat the Federal share of costs. Specifics include elimination of the obligation to make a cash payment each month (the "purchase requirement") to receive Food Stamps and an extension of AFDC benefits to two-parent families (with children) where the father is unemployed.
- . Small-Scale Refundable Tax Credit: This approach adds a small-scale refundable tax credit (\$200-300) to the Federal income tax system; effectively establishes a Federal minimum in the AFDC program while providing substantial fiscal relief to state and local governments; leaves the current administrative structure in place, but simplifies and standardizes eligibility criteria and benefit computation procedures between income assistance programs. The benefits of this approach would be universally available and would aid all poor individuals and households.
- . In-Kind Programs: This approach enacts a housing allowance program and eliminates the purchase requirement in Food Stamps and effectively establishes a Federal in-kind minimum benefit. AFDC and SSI grants would be reduced based on the volume of the "in-kind" benefits, but overall grant levels would be adjusted upwards. This approach provides universal coverage and increases income supplementation for all poor individuals and households.



Jobs/Cash Proposals: This approach classifies households on the basis of employability, and provides jobs rather than cash to those expected to work. Households with no employable member receive cash assistance. Advocates of this general approach emphasize the importance of the work ethic in our society, believe the government should provide needy persons with an opportunity to contribute to society in return for support. They believe that comprehensive reform is politically feasible only if assistance for the able-bodied is provided in return for work.

- One variant of this approach advanced within the Labor Department provides universal coverage of all low-income families, couples and individuals whose total income falls below the eligibility limits. It guarantees relatively high-wage public service jobs to develop the skill levels of participants in order to promote the transition to the private sector.
- Another version of this approach embodied in a 1972 report of the Senate Finance Committee restricts coverage to families with children and provides relatively low-wage, low-skill public service jobs designed to encourage recipients to find work in the private sector.
- A major constraint on this approach involves the government's ability to create sufficient jobs for all those classed as employable, without enormous expense.

Triple Track Option: This approach also subdivides needy households on the basis of employability. Those expected to work, but not regularly employed, are covered by an expanded, national unemployment insurance system (UI) backed up by employment assistance and public service jobs (the manpower track). Those working, but with insufficient earnings, would have their incomes supplemented by an expanded earned income tax credit and the Food Stamp program (the working poor track). Those not expected to work receive cash benefits which are reduced almost dollar for dollar as the recipient receives outside income, such as wages (the welfare track). Advocates of this approach emphasize that poverty is a function of lack of work, that the economy does not currently provide jobs

for all who wish to work, and that the social insurance system should be expanded to recognize these facts. Under this approach, the current Unemployment Insurance program continues to be supported by employer contributions; those persons in the manpower track not covered by the current Unemployment Insurance program are enrolled in a special unemployment assistance program financed out of general revenues, for which only low-income people are eligible.

- Coverage in the Triple Track proposal advanced by Tom Joe is universal, and all needy households receive assistance from one of the tracks.
- The REACH proposal advanced by Representative Ullman in 1972 is a variant of the Triple Track approach. Its coverage, however, is limited to families with children.

Consolidated Cash Program with a Jobs Component: This approach establishes a cash assistance program with universal coverage of all needy households. The cash benefits are similar to proposals of the 1969 Heineman Commission Report, the Griffiths Subcommittee of the Joint Economic Committee, and the Income Supplement Program developed under HEW Secretary Weinberger. These proposals relied exclusively on a modest benefit level and reduced benefits only gradually if recipients received wages to provide work incentives. A current version of the approach would require work by able-bodied adults in households receiving cash grants and would provide a limited number of public service jobs to increase employment opportunities. The Nixon Family Assistance Program (FAP) was a slightly less ambitious form of this approach that limited aid to families with children. The recent National Governors' Conference Report also advocates a very similar plan with coverage limited to families with children.

It should be noted that the descriptions of the last three options (Jobs/Cash, Triple Track, and Consolidated Cash with a Jobs Component) emphasize their differences, while in terms of substance and impact on recipients they may be, in fact, quite similar.



AN OVERVIEW OF THE INCOME SECURITY SYSTEM

This paper is the first in a series of papers on welfare reform. It begins by examining not only the traditional welfare programs, but also the social insurance programs, the employment programs and policies designed directly or indirectly to assist the low income population, and even taxation and other policies that encourage private savings, investment, and provisions for retirement.

Welfare is an important source of income for the low income population, but it is not the only source, and its receipt depends on an individual's current experience with all other forms of income. Not only does the amount of earnings, savings, and other transfers have implications for welfare benefits; welfare programs in turn can affect an individual's incentive to obtain non-welfare income.

Some of these interactions can be illustrated by considering some of the events that may occur during an individual's lifetime. Consider John Doe, who enters the labor force after 12 years of public schooling and begins by earning more than \$4,600 per year. In a full time position, he is prevented from earning less than \$2.30 per hour by the minimum wage. Alternatively, John might have elected to go to college, perhaps receiving a Basic Educational Opportunity Grant. Upon graduation, he could probably have found a somewhat higher paying job and reduced his likelihood of being unemployed in the future. While employed, John pays Federal income and Social Security taxes on his income. Should he become unemployed, he would probably qualify for Unemployment Insurance benefits. Should these benefits run out or be inadequate, he and his family (he has added a wife, Mary, and two children) may also be eligible (in 26 states) for benefits from Aid to Families with Dependent Children - Unemployed Fathers program. If so, they would also automatically qualify for Food Stamps and Medicaid benefits. If, on the other hand, John and Mary had accumulated assets, they would probably not have been eligible for AFDC-UF, Food Stamps, or Medicaid. Even if he remains prosperous, he may find himself benefitting indirectly, if, for example, Medicaid pays for nursing home care for his invalid father.

All these income sources are interdependent. Each program affects the net benefits from employment. Taxes reduce income available for private use but may simultaneously, in the case of the Social Security and the Unemployment Insurance programs, ensure eligibility for future benefits. Saving and investment activities will influence not only resources available to meet basic consumption needs, but also may affect eligibility for several income assistance programs. Finally, the categorical nature of many income assistance programs provides incentives for family dissolution. For example, should John leave Mary and the children, they would almost certainly qualify for Aid to Families with Dependent Children.



The perspective with which we begin, therefore, is the income security system -- the totality of interventions by which society attempts to ensure that the income needed to obtain necessary goods and services is available to all citizens. It is made up of four basic systems: The employment system; the savings system; the social insurance system; and the income assistance system (a term we shall use hereafter to include all "means-tested"\* or "welfare" programs). In the pages that follow, we shall briefly describe the role of government in each of these systems. The appendices provide a glossary of terms that will be used in this and the following papers, and descriptions of individual government programs within the social insurance and income assistance systems.

## EMPLOYMENT

Earnings are the most important source of income in our economy. In 1974, 89 percent of all families and 62 percent of all unrelated individuals (persons living alone) had some earnings during the year. Among families below the official poverty threshold, 62 percent had earnings. Even among low income unrelated individuals, whose median age is 61, 35 percent had some earnings during 1974.

Our social expectations are that those physically and mentally able to engage in productive employment activities should rely heavily upon their own efforts to provide income for their basic consumption needs. For this reason, the Federal Government strives, in its economic policies and its income security policies, to increase total employment and to reduce the need for non-employment income support. Such policies include the following:

### Macro-economic Policies

Federal fiscal and monetary policies influence the total demand for goods and services and, as a result, total employment and the rate of unemployment. Particularly since the 1930's, an important function of the Federal Government has been to regulate the money supply, and to adopt spending and taxation policies that pursue "full employment". For a variety of reasons, however, the goal of full employment has not been easy to achieve. Indeed, there has been considerable policy debate about the definition of full employment.

### Direct Job Provision

Governments create jobs directly as well as indirectly. The Federal Government sponsors some 300,000 Public Service Employment (PSE) jobs through the Comprehensive Employment and Training Act. With proposed new legislation, this number is expected to increase to about 600,000 over the next year.

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\*By "means-tested" we mean any program that is conditioned on total family income from any source. Such a program may or may not have an assets test as well.

PSE jobs are sponsored by agencies of state and local governments and are implemented primarily to assist unemployed workers. These agencies most frequently employ PSE program participants in work requiring low to moderate skill levels.

### Regulation of Labor Markets

The government regulates many aspects of the labor market in order to alter the distribution of earned income. Regulations cover such matters as: collective bargaining and labor disputes; anti-discrimination in hiring and promotion; occupational health and safety; minimum wages; maximum hours and overtime; employment of minors. The minimum wage law, in particular, has substantial impact on individual and family earnings. To some extent, it may also increase unemployment; especially among the young. Similarly, the availability of full Social Security benefits at age 65 may encourage private mandatory retirement policies.

### Education and Manpower Programs

The government attempts to influence the potential productivity of workers in a variety of ways. First, there are primary, secondary, and post-secondary public education programs. For those no longer in school, there are extensive manpower and training programs. Finally, state employment services help many unemployed workers locate suitable employment.

### PRIVATE SAVINGS

Few individuals are able to meet their consumption needs at all times during their adult lives solely through employment income. Families and individuals attempt to save from employment income in peak earning years to build up assets that can be drawn upon during times when employment income is not sufficient to meet basic consumption needs, and to provide for retirement. This savings activity can take a number of forms including: private insurance (life, disability, health); contributions to pension funds; or the accumulation of financial or physical assets. Generally, these activities are encouraged by our tax laws. Income tax credits are provided for contributions to certain retirement accounts, and employer contributions to pensions are nontaxable income to the employee. Home ownership is encouraged by permitting the deduction of mortgage interest payments and real estate taxes from taxable income, and by excluding the rental value of owner-occupied housing from taxable income.

### SOCIAL INSURANCE PROGRAMS

During the last century, and again especially since the 1930's, the United States has developed seven major social insurance programs. These include Old Age, Survivors, and Disability Insurance (OASDI, often labeled "Social Security"), Railroad Retirement, Workmen's Compensation, Black Lung, Unemployment Insurance, Veterans Compensation, and Medicare. In fiscal 1977, total benefits from these seven programs are expected to exceed \$130 billion. (See Table 1.)

While these programs are variously designed to meet a broad range of needs, they share two common characteristics:

1. Eligibility for benefits is conditioned upon previous work in covered employment; benefit levels are often related, although not precisely, to previous earning levels.
2. Eligibility is conditioned upon the occurrence of a particular event such as unemployment, illness, disability, retirement, or the death of a principal earner. The social insurance programs are income-conditioned in the sense that the degree of earnings loss that results from this event can affect eligibility for or the amount of benefits received.

These social insurance programs provide an important supplement to employment income and savings. Because social insurance benefits do not depend upon total family income from all sources, such benefits are paid mostly to the non-poor. But many individuals and families who would otherwise be in poverty have been assisted by these programs.

Despite the size of our social insurance expenditures, the original conception of the 1935 Social Security Act -- that the restoration of full employment and the maturation of the social insurance programs would meet virtually all the income support needs of American citizens -- has not been realized. In large measure, this has been due to our inability to achieve full employment; in fact, because of our concern regarding inflation, the policies of the Federal Government in many instances have deliberately permitted an increase in unemployment. While employment income and social insurance benefits are the most important income sources for the low-income population, some persons cannot earn or qualify for such income, and for many others it is not adequate to meet basic needs.

#### INCOME ASSISTANCE PROGRAMS

For those with insufficient earnings, savings, and social insurance, the income assistance programs -- the ones commonly referred to as "welfare" -- are available, in greater or lesser degree, to provide additional help in meeting basic consumption needs. The income assistance programs provide benefits in several forms, and are financed and administered at several different levels of government. Some provide assistance in cash (e.g., Aid to Families with Dependent Children and Supplemental Security Income), some in vouchers or "near-cash" (e.g., Food Stamps), and yet others provide benefits strictly in-kind (e.g., housing, school lunches). Some programs are Federally financed and administered, some are Federally financed and State administered, some are jointly funded and State administered, and some are wholly financed and administered by States. In addition, in many States local governments share in both program financing and administration.

Only one program (Food Stamps) can assist all low-income people; all of the other programs are categorical (i.e., available on the basis of age, disability, dependency or some other factor in addition to current income need).



TABLE 1

MAJOR SOCIAL INSURANCE PROGRAMS

<u>PROGRAM</u>	<u>DATE ENACTED</u>	<u>FY 1977 EXPENDITURES</u> (Billions of \$)
Workmen's Compensation	1908	6.7
Veterans Compensation	1917	5.7
Old Age-Survivors Insurance	1935	71.0
Unemployment Insurance	1935	14.3
Railroad Retirement	1937	3.6
Disability Insurance	1956	10.9
Medicare	1965	21.0
Black Lung	1969	1.0
TOTAL		134.2

Source: The Budget of the United States Government, Fiscal Year 1978,  
Appendix. January 1977, FY 1977 expenditures are estimated.

Nine major income assistance programs expend almost \$50 billion per year (by major, we mean programs currently providing over one billion dollars per year in assistance; see Table 2). Appendix A provides brief descriptions of all these programs.

In addition to these basic income support programs, there are other programs that assist the low-income population and, indeed, interact with the major welfare programs. Examples include the social service programs financed through Titles XX and IV-B of the Social Security Act and the child nutrition programs.

Finally, there is the tax system. To date, the tax system has not been a significant source of income support for the low income population. Only in the case of the earned income credit are actual payments provided to eligible recipients. On the other hand, the tax system determines how much of one's income is available for savings and consumption and influences employment, education, investment, etc. The tax system contains measures of well-being in the way income is defined and in the amount of the exemptions that can be taken against income. Some people have suggested that the tax system could be utilized as an important mechanism for income support.

#### Characteristics of Income Assistance Programs

The programs that comprise the income assistance system are, as discussed in the next section, diverse in a variety of ways. They do, however, share certain technical characteristics that are central to the policy issues involved in welfare reform. This section will introduce and define six of these characteristics and very briefly indicate their importance to major questions of social policy. This will serve both to introduce a set of terms that will be used frequently when comparing welfare reform options and to provide a bridge to succeeding papers.

Basic Benefit. The basic benefit level (or "guarantee") is the benefit an eligible unit would receive if the unit had no income during the period in question. Therefore, the basic benefit level is a principal measure of the adequacy of a program's benefits.

Several controversial issues of public policy center around the adequacy of the basic benefit levels. For example, should transfer program payment levels vary according to regional differences in the cost-of-living or the standard-of-living? Should local or national preferences determine adequacy? Should the definition of adequacy vary according to the age, health, or employability of the recipient?

TABLE 2  
MAJOR INCOME ASSISTANCE PROGRAMS

<u>PROGRAM</u>	<u>DATE ENACTED</u>	<u>RECIPIENTS*</u> <u>(Millions)</u>	<u>FY 1977 EXPENDITURES</u> <u>(Billions of \$)</u>	
			<u>State &amp; Local</u>	<u>Federal</u>
General Assistance	N.A.	.9	1.3	0.0
Veterans Pensions	1933	2.3	0.0	3.1
Aid to Families with Dependent Children	1935	11.4	4.6	5.7
Housing Assistance	1937	3.0	N.A.	3.0
Food Stamps	1964	17.7	N.A.	4.5
Medicaid	1965	24.7	7.5	9.7
Basic Opportunity Grants	1972	1.9	0.0	1.8
Supplemental Security Income	1972	4.4	1.6	4.7
Earned Income Tax Credit	1975	6.3	0.0	1.3
TOTAL			15.0	33.8
Total (Federal, State, and local)				48.8

\*The total number of recipients is not the simple sum of the recipients of each program, because many persons receive benefits from more than one program.

Source: The Budget of the United States Government, Fiscal Year 1978,  
Appendix. January 1977. FY 1977 expenditures are estimated.



These questions are made more difficult by the fact that most recipients benefit from more than one program. In the case of the aged, for example, it may not be relevant to assess the adequacy of the minimum benefit in social security without taking into account the Supplemental Security Income Program which can supplement this benefit if no other income or resources are present. Similarly, the adequacy of AFDC benefits alone is not the relevant measure since all AFDC families are categorically eligible for Medicaid and the vast majority for Food Stamps as well.

Benefit Reduction Rate. The benefit reduction rate (or "marginal tax rate") is the percentage of additional earnings (or other income) that is "taxed away" through a decrease in the basic benefit. Unless society wishes to provide transfer benefits to everyone, it must reduce benefits to zero at some point. The rate at which this occurs affects the reward for additional work and thus the work effort of welfare recipients.

Once again, this issue is complicated by the fact that most recipients benefit from more than one program. As a result, the relevant measure is the cumulative benefit reduction rate from all of the means-tested transfer and tax programs in which the beneficiary participates.

The whole question of work effort and labor supply has been at the center of the welfare reform debate for many years. This is a sensitive issue which combines deeply felt social values and sophisticated econometrics and labor economics. It is also inextricably connected to the issues surrounding the income definition, basic benefit level, and breakeven level.

Breakeven Level of Income. The breakeven level is the income at which a unit no longer receives program benefits. Obviously, the higher the breakeven level, all else equal, the more expensive the program will be. Higher breakeven levels also imply that a lower percentage of the benefits are going to those at the very bottom of the income distribution. For the same basic benefit level, the lower the benefit reduction rate, the higher the breakeven level. Thus, there is a continuing tension, in any transfer program, between providing financial incentives to work, keeping program costs low, and targeting benefits on the lowest incomes.

An interesting example of this tension occurred during the debate over Food Stamps in the last Congress. While there was little support for decreasing the basic benefit levels or increasing the benefit reduction rate, there was considerable support for lowering the breakeven level. Some of this pressure surfaced in proposals to decrease the deductions permitted from gross income. Another proposal was to cut-off eligibility at the poverty line. In both cases, although the formal benefit reduction rate would be unchanged, the reward from work would have been decreased. In some instances, a small increase in earnings would have resulted in a larger decrease in benefits amounting to a financial penalty to work. In the end, nothing was enacted.

Countable Income. Countable income is the income measure used to determine program eligibility and the benefit level. The definition of income is a critical component of any income conditioned program, as students of the Federal income tax are well aware. Permitting extensive exclusions or deductions from income both creates issues of horizontal equity and forces marginal tax rates higher. This is as true for transfer programs as it is for an income tax.

One recurring aspect of this issue is whether one transfer program should count the benefits from another transfer program in assessing need. For example, should SSI continue to offset social security benefits dollar for dollar (after the first \$20 per month), or should it completely ignore social security benefits as the Federal income tax currently does, or something in between?

An issue that has received considerable Congressional attention in the last few years is whether itemized work expenses should be deducted from countable income, or a standardized deduction used, or the benefit reduction rate lowered, or none of the above. In terms of maintaining a financial incentive to work, the definition of income can be as important as the benefit reduction rate.

Accountable Period. The accountable period is the time period over which income is measured to determine program eligibility and payment levels. Should it be one month, as in some welfare programs, or one year, as in the tax system? A short (one month) accountable period makes it possible for middle income persons (e.g., school teachers in the summer) to qualify for benefits. On the other hand, a longer accountable period (six months or a year) makes the income support program less responsive to sudden drops in income.

One by-product of a relatively short accountable period is the pressure to specifically exclude certain classes of recipients who are highly likely to be only temporarily poor, e.g., students and strikers. A great deal of the public support for excluding these categories of persons from means-tested transfer benefit amounts to a criticism of the accuracy with which the current system measures available income and resources (as well as a judgment on the voluntary nature of their low-income status).

Filing Unit. The filing unit is that group of persons that, in a legal and administrative sense, jointly applies for and receives benefits.

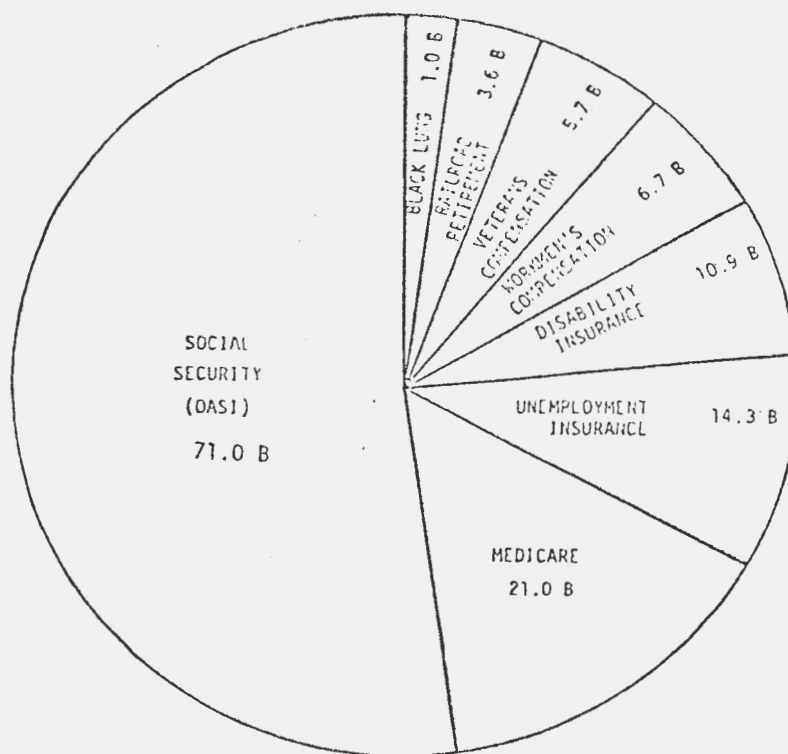
Additional persons may increase benefits if basic benefit levels increase with family size or they may decrease benefits by adding more income and resources. Some programs base benefits on only the individual (Unemployment Compensation in most states) or the couple (SSI). Other programs consider the entire family and sometimes the entire household (Food Stamps).

It is hard to overstate the importance of these filing unit rules on several dimensions. For example, in the context of a comprehensive cash assistance program, moving from a relatively broad to a relatively narrow definition of the family can easily increase projected costs by over 50 percent. The implications these rules have on family structure are of equal importance to cost considerations. For example, there is a continuing controversy over the extent to which middle class families should take responsibility for their aged, indigent parents who are applying for SSI and Medicaid. A similar controversy exists over the responsibility of step-fathers for children on the AFDC rolls. Would enforcing broader financial responsibility cause an AFDC mother to delay or forego marriage? There are many such difficult and controversial issues of family policy involved in the filing unit rules for other transfer programs as well.

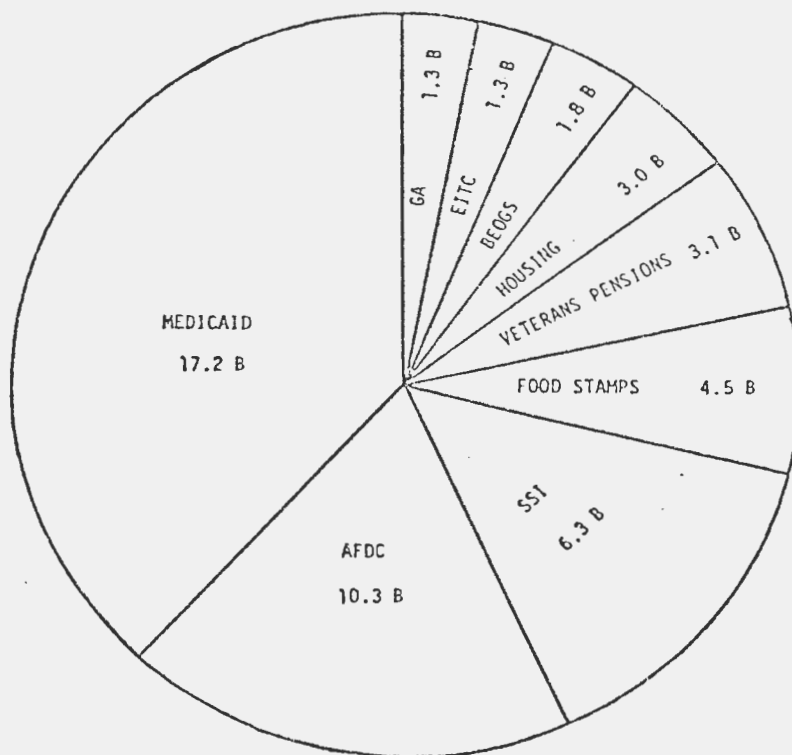
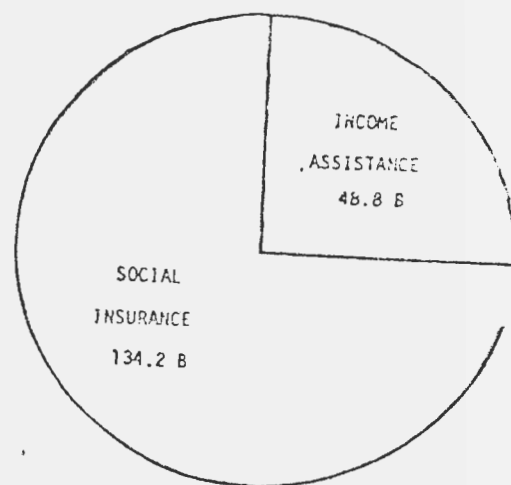
The issues raised by the interaction of these welfare program characteristics will be examined in detail in succeeding papers.

FIGURE 1

B = Billion



### SOCIAL INSURANCE



### INCOME ASSISTANCE

Source: See Tables 1 & 2



## SOME OBSERVATIONS

It would be inappropriate to make judgments or critical comments on this set of programs in the absence of some explicit goals and criteria (the subject of Paper #2). Nonetheless, a few observations may be helpful.

Breadth. There are a large number of government programs of many types which affect the incomes of the low-income population. Most of these government programs are not welfare programs. The income assistance programs provide critical assistance for many of the poor, but constitute only a fraction of the total governmental influence, direct and indirect, on people's incomes. Even in the income security area, means-tested transfers account for only 27 percent of total direct government expenditures (See Figure 1).

Diversity. Tremendous diversity exists among these programs in the roles played by various levels of government, in the form that benefits are provided, and in the ways that need is measured and eligibility is determined. There is, in short, no clear and consistent rationale that underlies income security policy.

- Our largest social insurance program, Social Security (OASDI), is the full responsibility of the Federal Government (Benefits are somewhat related to past earnings, and there are no variations (except as the result of individual wage histories) from state to state.
- Our second largest social insurance program, unemployment insurance, is left almost completely to the States. Benefits are somewhat related to past earnings, but vary widely from State to State, both as a result of wage histories and local decision making. For example, maximum weekly payments including dependents' allowances range from \$63 in Texas to \$165 in Connecticut.
- One major Federal welfare program, Food Stamps, assures a uniform minimum income for all households with the provision of the benefits in food coupons. States administer this Federal program.
- A second Federal income assistance program, Supplemental Security Income, assures a uniform minimum income in cash to aged, blind, or disabled individuals. States are required to supplement benefits to some of these recipients, and may elect to provide additional optional supplementation. The Federal Government administers the basic Federal benefit and some of the State supplements.
- A third major welfare program, Aid to Families with Dependent Children, allows each State to determine how much cash assistance the Federal Government provides and, within some limits, to which citizens. That is, AFDC is an agreement by which the Federal Government provides matching grants to a State for the purpose of assisting it to help a needy population in State-entitlement programs.

One result of this agreement is that basic benefit levels and the Federal share of the AFDC basic benefit vary widely among the States to families that are otherwise identical. Annual AFDC basic benefit levels for four-person families with no other income vary from \$5964 in Hawaii to \$720 in Mississippi. The Federal share of the AFDC basic benefit to such a four-person family varies from \$3075 in Vermont to \$600 in Mississippi.

- The largest welfare program, Medicaid, bases eligibility in most instances on participation in other programs. For example, AFDC recipients are "categorically eligible" for Medicaid. Benefits are in-kind and, as in AFDC, the Federal share varies widely among States.
- A 'last resort' program for most low-income Americans is General Assistance. This program operates solely at State and local discretion and provides uneven, unsure, and usually temporary income support.

No two of these programs are congruent in Federal, State, or local roles and responsibilities.

Interdependence. There are many interdependencies in the income security area. These interdependencies are found among programs and, perhaps more importantly, among income support systems.

Program interdependencies arise partially because most transfer recipients receive benefits from more than one program. A 1972 study of six low income areas conducted by the General Accounting Office found:

- Of households which receive benefits, those receiving only one benefit were atypical -- from 60 to 75 percent of beneficiary households received benefits from more than one program.
- From 10 to 25 percent of beneficiary households benefited from five or more different programs.

The number of programs and recipients has grown since this study was completed.

Some problems of program interdependence are well known. For example, eligibility for Medicaid, for many, is conditioned upon receipt of AFDC benefits. This means that an AFDC family that earns enough income to lose AFDC eligibility may also lose all Medicaid benefits. For such a family, an additional dollar of earnings may cost the family hundreds, or even thousands, of dollars in benefits. Moreover, because of this interdependence, welfare reform necessarily raises questions about health insurance, at least for the low-income population. In 1970, the Nixon Administration welfare reform proposal, the Family Assistance Plan, was sent back to HEW by the Finance Committee so that the implications for Medicaid eligibility could be more fully explored. Program interrelationships of this type will be examined carefully in future papers.



Just as there are interrelationships among welfare programs, there is significant interdependence among the different sectors of our income security system. The need for welfare programs depends critically upon the success of employment, private savings, and social insurance in meeting basic income needs. Under our current system, for example, statistics show that social insurance programs alone would reduce all poverty from 25 percent of all U.S. households (before any government action) to 14 percent. Welfare programs then reduce that proportion further, to approximately 7 percent if in-kind transfers are also included in income. These figures, however, can be misleading. Social insurance programs transfer (i.e., redistribute among the population) over two-and-one-half times as many dollars as welfare programs. Further, even though these programs are not means-tested and therefore are not target efficient\* as anti-poverty tools, they are nevertheless effective in reducing the incidence of poverty. This is true partially because social insurance benefits are conditioned on an interruption of earnings and partially because of the sheer magnitude of the transfers, but also because we "sequence" our programs so that welfare is a last resort. If we had no social insurance programs, our welfare programs would be larger and they would show a greater statistical impact on poverty. This interdependence profoundly affects our perspectives on welfare reform. In fact, some who are interested in reforming welfare do not advocate many changes in actual welfare programs, but rather suggest alterations in our social insurance programs to reduce the need for means-tested programs.

Finally, there is increasing concern with the relationships between income security programs and individual efforts to work and save. For example, generous welfare benefit levels with high rates at which benefits are reduced with increases in family income may reduce work incentives in two ways: they offer an alternative source of income support and they reduce the reward from increased earnings. This concern has been a central issue in welfare reform in the last decade. Another example, only recently receiving much attention, relates to the rate at which benefits are reduced for families with income from private savings, investment, pensions, or social security entitlements. Such offsets, as in the current SSI program for example, reduce the incentives to individuals to create income generating assets.

In summary, the income security system is broad, diverse, and highly interrelated. As this study of welfare programs and the potential for improvement in income assistance policy proceeds, it is important to be cognizant of the context and the implications that any change would have on the rest of the income security system.

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\* "Target Efficiency" is a concept that will be dealt with at length in succeeding papers. Basically, it means the percent of total transfers going to the target population.



THE INCOME SECURITY SYSTEM:  
PURPOSES, CRITERIA, AND CHOICES

The first paper in this series offered an overview of what we have termed the income security system: government interventions in employment activities; government involvement in savings and related activities; and government maintenance of household incomes through social insurance, income assistance programs, and work-conditioned transfers.

These governmental policies and programs represent society's judgment, manifested through the political process, that the normal operations of our economic and legal systems will not produce socially just outcomes if left to themselves. These policies and programs reflect a number of particular concerns which arise from a number of different motivations. This second paper will:

- consider briefly the purposes of and motivations behind the income security system;
- provide detailed criteria that can be used to assess current programs and proposed changes;
- discuss the trade-offs implicit in competing objectives for the income security system; and
- outline a number of broader issues that must be considered in a discussion of welfare reform.

PURPOSES OF THE INCOME SECURITY SYSTEM

The income security system serves three fundamental purposes -- to provide access to basic goods and services, to soften the impact of unpredictable catastrophic events, and to provide a cushion against a sudden cessation or reduction in income. It may be useful to refer back to these purposes from time to time.

- Access to basic income. Numerous approaches are used to assure access to at least subsistence income. Some programs provide the basic skills needed to earn an adequate income; some provide income supplements (either in cash or in-kind) to inadequate income from earnings or savings; some provide basic income support for those with no substantial income from any other source.

- ⑥ Protection Against Catastrophic Expenses. Other approaches and programs may be necessary to protect people against the impact of catastrophic events, such as severe illness or natural disaster. These income needs, which are irregular, unpredictable and potentially very large, are different from the need for basic income to cover regular and predictable consumption.
- ⑥ Protection against interrupted earnings. Another threat to income security is the risk of income loss because of the unemployment, extended illness or disability, retirement, or death of the principal wage earner.

Just as there are several fundamental purposes or objectives of an income security system, so also there are several motivations for society to engage in redistribution of income. Those usually cited are the impulse of humanitarian concern, the desire for income certainty, the desire for social stability, the desire to correct for unequal opportunity, and, though less widely shared, the concern over income inequality.

- ⑥ Humanitarian Concern. To a large extent, the public transfer programs reflect the "caring" or "sympathetic" aspect of human nature. We will not permit other human beings, with whom we have strong feelings of kinship, to go with their basic consumption needs unmet.
- ⑥ Risk Aversion. Most people value family stability and income certainty. These values underlie programs designed to cushion against sudden income drops or catastrophic expenditures.
- ⑥ Equality of Opportunity. The presumption behind programs to insure equality of opportunity is that the society is not fundamentally fair unless citizens enter our competitive economic and political processes equipped with basic skills and physical well-being and do not encounter irrational discrimination in employment. The belief is that efforts to achieve equality of opportunity will, in time, reduce income and wealth disparities to only those which exist because of differential ability and effort. We have traditionally concentrated our public expenditures in the pursuit of equality of opportunity on attempting to increase the individual's potential for future earnings and wealth accumulation and enforcing anti-discrimination statutes and orders. In addition, however, some public income transfers (e.g., AFDC and Medicaid) can be justified on the grounds that they too help equip individuals for participation in our economic and political systems.
- ⑥ Equality of Results. Social policy in America has traditionally stressed equality of opportunity more than equality of results. It cannot be denied that public income transfers reduce the degree of income inequality, but rarely is this cited as a goal of these programs. Some argue that greater equality of ends is a desirable social goal, if only because there can be no perfect equality of opportunity. Whatever the merits of these positions, the political debate over welfare reform will involve to some degree an assessment of the extent to which income inequality should be reduced.

- Social Stability. Altruism and risk-aversion, of course, do not fully explain the existence of income security programs. Those who are relatively well-off naturally desire social stability and will engage in some income redistribution in order to promote it.

These motivations do not exist in a vacuum. As the nation's economic system has become increasingly interdependent, as we have become increasingly affluent, and as family living patterns have changed, we have altered the ways we implement these motivations. For example, our sense of national kinship and national concern for one another is much greater now than, say, one hundred years ago, a phenomenon which can be understood as a result of the mobility of people and goods that modern industrial society makes possible and depends upon. Similarly, our sense of the proper base on which to spread economic risks has become nationwide in scope. A phenomenon in all modern industrial societies is that, as they grow more affluent, care for the elderly shifts from the extended family to "socialized" income support systems, such as Social Security -- a shift which seems to reflect the preferences of old and young alike.

In analyzing the current income security system and the proposals to alter it, we are observing how these motivations are implemented and balanced against other values of equal importance -- the need to encourage work, entrepreneurship and invention, family ties, and so on. Thus, there is no "right" answer. Choices ultimately depend on which goals are viewed as relatively more important than others.

#### CRITERIA FOR EVALUATING INCOME ASSISTANCE PROGRAMS

Analysts of the income security system and most policy makers generally agree about the relevant criteria for evaluating income assistance programs. To a considerable extent, these same criteria can be applied to other components of the income security system, especially social insurance and work-conditioned transfer proposals that are being advanced to meet the needs of the low-income population. Considerable disagreement exists, however, over the relative importance attached to specific criteria and the implications this holds for program design. Nonetheless, by agreeing on a common set of evaluative criteria we can apply a common framework to alternatives and identify the particular sources of disagreement, whether it be in differences in values, objectives, the operational definition of the criteria, or the interpretation of factual evidence.

We intend the following list of objectives to be inclusive. Some are more important than others.



Adequacy. An income assistance system should be designed and integrated with the employment and social insurance systems so that all people -- including those who can and cannot work -- have access to a minimum income. It is important to remember that adequacy relates to total available income, including earnings, and not just to the benefit level of a particular income assistance program.

Equity. Equity has two dimensions. Horizontal equity requires that people in the same circumstances be treated in the same manner. This means that people with the same need should receive the same assistance, and that people should receive equal pay for equal work. What constitutes "same circumstances" is a matter of some controversy. Vertical equity requires that people with greater needs should receive more assistance. At the same time, vertical equity requires that people who earn more, or who have saved more, should have more total income.

Target Efficiency. Assuming a focus on the low-income population, target efficiency means that assistance should be concentrated on those most in need. Although related to the criterion of vertical equity, target efficiency extends beyond the treatment of particular individuals to measure the overall efficiency of an assistance program in reaching its target population.

Work Incentives. The system should encourage self-sufficiency. People who are able to work should find it strongly in their interest to work. Thus, those who work and earn more should have higher total incomes.

Employability. To the extent that the system can increase the employability of people by providing them with work experience, it will promote self-sufficiency.

Self-Image. The system should help people in a manner that does not undermine pride, self-respect, or the desire to be self-sufficient.

Family Stability. The system should encourage family stability. It should avoid incentives for family dissolution and disincentives for family formation, and should be as neutral as possible toward increases in family size.

Saving Incentives. The system should encourage private provision for future income security. People who have saved and invested to protect themselves from adverse economic conditions should benefit from their forethought.

Charity and Intra-family Transfers. The system should encourage private charity and the fulfillment of family obligations (such as child support).

Treatment of Recipients. Those who need assistance should be treated in a manner that is dignified and compassionate, that avoids stigma, and promotes independence.

Administrative Efficiency. The system should achieve its objectives at a minimum cost. If multiple programs are required, there should be a high degree of coordination and integration among programs, especially among those serving the same population.

Coherence and Control. Programs and policies should work in harmony as a result of deliberate planning and forethought, and should be subject to overall policy and budget control in both the executive and legislative branches of government.

Clarity and Simplicity. Programs and policies should be understood by all citizens -- policy makers and administrators, taxpayers and assistance recipients.

Even more problematic than the differing meanings and weights attached to these criteria is the fact that the goals are often in competition; for example, the adequacy of the income guarantee may detract from work incentives. Trade-offs and compromises in program design will be hard to make, but they are unavoidable. Differing values and competing objectives comprise the fundamental issues of welfare reform. It is essential, then, to investigate the nature of these disagreements and trade-offs.

Although most would agree in principle that everyone should have access to a minimum income, many argue for a higher standard measured against the average or median income of the population, while others support a lower level tied to minimum subsistence requirements. Adequacy is difficult to measure. The official poverty line is an arbitrary measurement, as any standard must be. Some feel that the official measure is too low, some feel it is too high;\* many question its use as a standard of adequacy for income assistance programs.

The adequacy criterion may conflict with other criteria. For example:

- Though some propose that benefits be high enough to prevent privation, others argue that high benefits (for households with able-bodied adults) will undercut work incentives and encourage dependence.
- Though some believe that standards of adequacy should vary with regional standards of living or community or State preferences, others believe that it is inequitable for benefits to vary except by family composition and income.
- Though some believe that standards of adequacy should be tailored to individual family circumstances, others believe that the case-worker discretion inherent in this approach leads to inequities, undermines management control, and complicates the program.

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\*See Paper Number Three for a fuller discussion of poverty standards.

Target efficiency measures the success with which programs target benefits on need. Just as people disagree on the appropriate standard of adequacy, so they also disagree on the appropriate measure of need and, consequently, the appropriate definition of the target population. Various means exist for conditioning benefits on some assessment of need. The general methods that can be used, either separately or combined, are income-conditioning and categorization. Income-conditioned benefits vary with the income of the recipient unit. Categorical benefits are extended to certain defined groups of people on the basis of personal characteristics (e.g., unemployment or disability), or family composition (e.g., single-parent), or events (e.g., death of wage earner).

The target efficiency criterion may conflict with other criteria in several ways:

- ① Though some wish to concentrate benefits on those most in need and to prohibit payments to families with income above the standard of adequacy, others argue that the resulting benefit structure undermines vertical equity and creates severe work disincentives by removing the reward for work.
- ② Some believe that, for target efficiency purposes, benefits should not be paid to households with a non-aged, able-bodied adult. Others believe that such categorization violates the concept of horizontal equity, since it denies assistance to equally poor families (most of which have a working adult), and that such distinctions are difficult to make in practice.
- ③ Many believe that categorical assistance to single parent families creates incentives for family dissolution and disincentives for marriage.
- ④ Though many believe that means-testing is desirable to improve target efficiency, others believe that means-testing is undesirable because it stigmatizes the poor.

Equity is also a principle more easily stated than defined. Many of the most heated debates about income assistance policy center on different conceptions of equity. Assessment of need and the definition of similar circumstances is a major source of disagreement. Differences over categorization and cost-of-living variations are relatively easy to consider, but even a seemingly simple assessment of need -- income -- can involve significant disagreement on equity grounds. Most agree, for example, that the unavoidable expenses of earning income should be deducted from income which is counted for the purpose of determining eligibility and benefits. But what is unavoidable? Tools, materials, taxes, union dues, work clothes, day care, maid services, transportation, and many other items are suggested candidates for deduction from gross income. To what level of detail should we go to define similar circumstances? Each variable which is taken into account increases the degree of differential treatment of people with similar gross incomes. Thus, this approach to equity will increase the degree of horizontal inequity and target inefficiency (as measured by gross income) beyond that which we may prefer.



This approach to equity may also introduce more caseworker discretion and require more administrative expenditures than we find desirable.

Another example of an equity dilemma occurs in an employment or work-conditioned approach to welfare reform. If we hold to our normal labor market principle of equal pay for equal work, there will be a conflict with target efficiency, unless entry to such work-conditioned assistance is somehow explicitly related to family size and income.

Work incentives are a focus of much concern in the design of an assistance system. Assistance payments may discourage work effort in two ways: first, the availability of assistance reduces the need for work; and second, the reduction of assistance to account for increased income also reduces the reward from increased work effort.

Several methods can be used to promote work incentives. First, households with an able-bodied adult might be excluded from assistance altogether. Second, benefit reduction rates might be kept low enough to assure a substantial return from increased earnings. Third, benefits might be conditioned on work effort.

These conceptions of work incentives conflict with other criteria, but in different ways:

- Categorical exclusion of certain households, as has been mentioned before, may violate the criteria of adequacy and equity and may have an adverse impact on family stability.
- Low benefit reduction rates are consistent with vertical equity, but they require payments to households with incomes above the standard of adequacy, reducing target efficiency.
- Work-conditioned benefits, depending on their nature, may violate the criteria of adequacy (if benefits are denied to those considered to be employable), target efficiency (if benefits are based on low wages rather than low income), vertical equity (if benefits are positively related to earnings, so that more benefits are paid to those with higher incomes), horizontal equity (if households with the same income qualify for different levels of benefits), and family stability (if benefits are available only to single-parent families).

These first four criteria -- adequacy, target efficiency, equity, and work incentives -- account for most of the disagreement and most of the trade-offs in the welfare reform debate; however, disagreements and conflicts are not limited to these four criteria. For example:

- o The issues involved in preserving incentives for savings and private charity closely reflect the work incentive issues. The existence of income maintenance reduces the need for savings and charity, and the reduction of benefits on account of income from these sources reduces the reward for prudence and the incentive to give. Concern for these incentives, as for work effort, may conflict with the criteria of adequacy, target efficiency, and equity.
- o Concern for the effects of income assistance on earnings capacity and self-image may lead to an emphasis on employment assistance for some households. This concern may conflict with target efficiency and equity criteria (if benefits are not related to income), and administrative efficiency and simplicity (if benefits are related to both income and work effort).
- o Administrative efficiency and management control may be consistent with policy coherency, clarity, and simplicity. On the other hand, these criteria may conflict with notions of adequacy and equity that require individualized assessment of needs, or with notions of target efficiency and work incentives that may require categorization and individualized prescriptions for work or training.

It should now be evident that it is impossible to satisfy all the objectives described above. The resolution of disagreements and trade-offs among objectives will require us to confront some fundamental issues of social policy and make some difficult choices.

#### MAJOR DESIGN ISSUES

The conflicts and trade-offs implicit in the above criteria reveal a cross-current of major policy issues. These issues are basic; they involve questions of who would be covered by an income security system, how they should be assisted, how much they should be assured, and what conditions they should meet. These issues, which follow, are normative; their resolution requires value judgments in the design of any system of income maintenance.

Coverage. Through social insurance, means-tested cash and Food Stamps, the current income maintenance system covers, to some extent, all low-income individuals and families. Society has already determined that no one with inadequate income will be excluded from some form of assistance, regardless of personal characteristics.

Categorization. On the other hand, the current income maintenance structure reflects a traditional social preference to provide more income support for some demographic groups than others. A decision to classify the low-income population into mutually exclusive categories will require controversial judgments about equity, work incentives, and our diagnosis of the reasons for low incomes.

Approach to Income Assistance. Closely related to the issue of categorization is the extent to which the approach to income assistance is tailored to different segments of the low-income population. Three general approaches can be distinguished:

- Income Support has been the traditional concept of income assistance, i.e., the sole source of support to a "dependent" population. It is usually suggested for single-parent families with small children, the aged, and the disabled.
- Income Supplementation is a concept that recently has been introduced to the welfare system with the earnings disregard in AFDC and universal eligibility for food stamps. This approach to income assistance supplements inadequate private incomes, and is usually suggested for low-income households with employed (or employable) adults.
- Employment Assistance is a concept of work-conditioned income assistance. Most programs currently have a "work test," i.e., the requirement that the recipient participate in job counseling and placement services, engage in job search, and accept a job when offered. Many critics of the present income maintenance programs recommend that the degree of work-conditioning be increased to include the requirement that actual labor be performed as a condition of the transfer. It may be in the form of what has been labeled "work relief," i.e., labor in exchange for a means-tested assistance payment, or in the form of public service employment as the exclusive means of support for households with certain characteristics. Another possibility would be the requirement that an individual take a private sector job, the costs of which are subsidized by one device or another. A decision to work-condition income maintenance will involve a careful weighing of the characteristics of the low-income population, the general condition and structural realities of the nation's labor markets, the preferences of taxpayers, and the degree of control we wish to exercise over recipients' behavior.

Some recent proposals for welfare reform recommend a return to the income support view of welfare for part of the low-income population, combined with an emphasis on employment assistance for the rest. Others propose the extension of income supplementation, perhaps in combination with elements of each of the other approaches, as the basis of welfare reform.

Assessment of Need. Two issues arise that relate to the assessment of need. The first is the criteria by which need is assessed; the second is the flexibility with which need is assessed.



- o Criteria of Need that are most often suggested are an event (e.g., unemployment or retirement), a condition of dependency (e.g., single-parent family, disability), income level, earnings level, or wage rate. Each of these is used in the current income security system. Each has a different implication for target efficiency, and each (except for income) has a different relationship to low-income status.
- o Flexibility in assessment of need, whether in the determination of eligibility, benefit levels, or countable income, is used to vary assistance according to particular circumstances. Some consider flexibility to be necessary for adequacy, equity, or target efficiency. However, flexibility requires discretion which can lead to the arbitrary treatment of recipients.

Work Tests. As noted, several of the current means-tested programs (e.g., AFDC and Food-Stamps) and several of the social insurance programs (i.e., Unemployment Insurance and any program based on disability) have a requirement that the recipient participate in job counseling, vocational rehabilitation and placement services; engage in job search; and/or accept a job when offered. Work tests are different from pure work-conditioned transfers in that labor is not exchanged for the grant and total income (employment income plus any income transfer) depends on family size and other factors as well as the wage rate. The work test issue has been traditionally linked to the issue of demographic categorization. We did not provide means-tested assistance to those whom we expected to work. Increasingly, work tests have become a major issue in public welfare as our social judgments as to which demographic groupings should be expected to work have changed and as the coverage of these programs has broadened. The question of whether or not a means-tested program should have a work test has implications for the government's overall labor market strategies and macro-economic policy, the consistency between and integration of Unemployment Insurance and means-tested transfers, and the amount of resources that should be devoted to day care, job training, and social services.

Integration with Other Components of the Income Security System. In describing the context of welfare reform, the first paper outlined the relation of the income assistance system to the employment system, the social insurance system, and the tax system. Thus, the integration of these systems should be an important consideration in the evaluation of any welfare reform proposal.

- o Income Assistance and Social Insurance are the two major components of the income maintenance system. Though there are strong imperatives toward welfare reform, there exist equally strong pressures for changes and expansions in the social insurance system. This is most evident in the area of medical care. In addition, there are several proposals to expand the coverage of Survivors Insurance (e.g., equal treatment for widowers, homemakers credits, coverage of divorce or long-term separation).

An unavoidable issue that will have to be addressed is how much new expenditures should be dedicated to expansions in social insurance for the middle-income, as well as the low-income, populations and how much should be dedicated to expansion in income assistance. Finally, some welfare reform proposals would use the existing social insurance programs, principally Unemployment Insurance, to effect transfers that are partially means-tested. The appropriate roles of, and relative growth in, income assistance and social insurance are, therefore, essential issues to be resolved.

- Income Maintenance and Market Outcomes. As noted in Paper One, many government measures in the income security, human capital (education and training), and civil rights areas are designed to change the distribution of employment income and to encourage and protect savings and other forms of wealth accumulation. Income maintenance programs, on the other hand, operate after private market outcomes. Though we traditionally have engaged in both sets of programs, limited resources may necessitate a choice of emphasis on one strategy as opposed to another. The relative effectiveness of these strategies and their consequences for the economy must also be assessed.
- Income Maintenance and the Tax System. The relationships between taxes and transfers are increasingly evident. A reduction in taxes is as helpful to a low-income family with a tax liability as an increase in assistance payments. The tax exempt income level (the sum of personal exemptions and the minimum standard deduction) has been raised several times in recent years in order to reduce the income tax burden on low and middle income families. Moreover, the Earned Income Tax Credit has set a precedent as the first tax provision to be "refundable" even to families that have no tax liability. Some proposals for welfare reform go beyond the bounds of income assistance and social insurance to propose an explicit integration of the tax and transfer systems. The same standards that are used to measure ability to pay personal income taxes, it is argued, should logically be extended as the measure of need for income assistance.

Intergovernmental Relations. The general issue of the roles, responsibilities, and interrelations of the various levels of government involved in the existing income maintenance structure is a matter of increasing concern. Presently, governmental roles are notably inconsistent. The Federal and State Governments, for example, each serve a different role in each of the three major income assistance programs and in the two major social insurance programs. At present, States leverage Federal money, and the Federal Government in some instances tells the States what they must raise from their tax bases and what they must allocate to income assistance. Thus, relations among levels of governments are severely strained, and some have suggested that current arrangements should be re-examined.

## MAJOR RELATED ISSUES

Any decision to change substantially the manner in which the income maintenance system treats the low-income population will involve explicit or implicit choices about some major social issues. Because these choices are not always apparent even when we discuss the tradeoffs outlined above, it is useful to have a listing of these major issues in mind as different alternatives are debated.

Aggregate Income Redistribution. Underlying the welfare reform debate and the discussion of other new initiatives in income maintenance (e.g., national health insurance) is the question of the aggregate income distribution across the entire U.S. population. The degree of inequality in the distribution of income in the U.S. is in excess of what some would prefer. Others would prefer less use of tax revenues to reduce inequality. To what extent should income redistribution be a focal point of the welfare reform debate? A different way of posing this issue is: What are society's preferences for the percent of the population to be covered by various components of the income security system, especially the means-tested component(s)?

Private Sector Share of GNP. In the last few years, there has been an expressed concern with the fraction of national output flowing through the public sector. This is, of course, explicit in President Carter's commitment to maintain the Federal share of GNP below 22 percent. This issue has two dimensions. What should be the relative roles of the public and private sectors in income security? For example, less reliance on Social Security and SSI (public mechanisms of income transfer) might encourage greater reliance on pensions and insurance (private collective mechanisms of income transfer). That shift, however, also could bring increased government regulation of and mandating of participation in those private mechanisms. The other dimension, which is relevant to possible work-conditioned programs as a vehicle for income assistance, is the appropriate balance in our demand for public vs. private goods and services.

Stigma and Control. Any discussion of income maintenance in a society that values individual liberty inevitably involves an examination of what limits, if any, should be placed on classifying recipients as "different" from taxpayers. An accompanying issue is to what extent should income maintenance be used as a means to regulate the consumption habits, work behavior, and family lives of recipients. The proponents of certain approaches to income maintenance -- social insurance; a universal demogrant such as a Children's Allowance; complete tax-transfer integration -- argue that the society is less likely to stigmatize or regulate the low-income population if those approaches are used to provide minimum consumption needs. Clearly, this issue is not one-sided, for taxpayers have their freedom diminished when required to contribute to another's livelihood.



Relationship to Other Social Policies. Income maintenance and the problems of the low-income population are related inexorably to other areas of pressing social concern. For example, any discussion of the energy crisis and different proposals to rectify present and future short-falls will turn to the distributional consequences of these proposals for the low-income population and the aged. Some view income maintenance as a means to provide the poverty population with job skills and other abilities to function more effectively in society. Others believe that income maintenance can be used to provide society with more needed public services. The welfare reform debate will have to address the extent to which we are impeded in various public policies (such as energy conservation or controlling inflation) because of problems in the income maintenance structure, and the extent to which various other social goals should be handled through income maintenance mechanisms or should be handled separately through distinct programs.

Effect on the Aggregate Economy. As detailed in Paper One, the income assistance system exists in part because the private economy does not provide everyone with an adequate income. But, attempts to ameliorate this problem should not further impede the ability of the economy to provide employment. This concern will be reflected in the debate over work incentives. In addition, if one admits to the existence of an inflation constraint on public spending, then our ability to spend money for new income maintenance initiatives and/or to create jobs may be limited by a competing concern about the impact of inflation on private income and business.

Regional Fiscal Flows. Any alterations in income maintenance, especially in the income assistance programs, will likely substitute some Federal dollars for money raised by State and local tax bases. The question of the regional allocation of tax revenues raised from the national tax base has become a very sensitive issue of public policy in the past few years. Different welfare reform proposals will have different regional fiscal impacts and will be evaluated by Governors and local officials from that perspective. In examining regional fiscal flows, analysis has tended in the past to focus only on the side of the equation of Federal dollars being substituted for State and local dollars, i.e., fiscal relief. This approach, however, ignores the fact that State and local taxpayers (the presumed beneficiaries of fiscal relief) are themselves Federal taxpayers and, thus possibly, the financiers of fiscal relief. To understand the fiscal impact of welfare reform, it will be necessary to examine both sides of the equation.

Government Fiscal Roles. Nor can we ignore the relative capacity of different levels of government to perform different sorts of governmental functions. It may be worthwhile to consider, for example, more Federal financing of income maintenance with less Federal, and more State, financing of other areas, such as human service programs. A related issue is the capacity of State and local tax bases to counter-act the effects that recessions and very high inflation have on all income maintenance programs.

Compared to the Federal Government, the States and local governments experience greater difficulty in adjusting program budgets primarily in their purview (e.g., AFDC and General Assistance) to compensate for economic downturns and, in some cases, have had to cut income assistance while unemployment and need were increasing.

#### Summary

This paper has discussed the broad purposes of the income security system and the criteria by which specific welfare reform proposals should be judged. These criteria frequently are in conflict and, as a result, produce difficult trade-offs. Most of these trade-offs revolve around a set of issues that must be resolved in the design of any income security system. In addition, there are a variety of over-arching issues that relate to the economic and social forces that shape our society. What emerges from this analysis is a range of very complex decisions. The welfare reform landscape is replete with such choices and this is what has made welfare reform difficult to achieve. Different people mean different things by welfare reform, and they have different ways of describing them. If this paper is successful, it will make it possible for each participant to use a common language in describing his own proposals and criticizing those of his colleagues. It will also provide a check-list whereby each proposal can be evaluated according to a common set of criteria.

PAPER #3

THE LOW INCOME POPULATION: WHAT WE KNOW ABOUT IT

A STATISTICAL PROFILE



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## Some Explanatory Notes

This paper provides an overview of the size and composition of the low-income population, changes in the composition of this population over time, and the role of government transfer programs in assisting low-income persons to move out of poverty.

Primarily, we summarize the status of the low income population with reference to the official U.S. poverty thresholds as these are the most widely accepted standards of minimal consumption adequacy. The data have come principally from the annual current Population Surveys of the Bureau of the Census. In addition, we have drawn upon analyses provided by the Congressional Budget Office and other scholarly studies.

We begin with some definitions:

### 1. Income Concepts

Four income concepts are used throughout this paper: before-transfer, after-cash transfer, after in-kind transfers and after tax. Before-transfer income refers to earnings wages, property income and private transfer (e.g., private pension) income. After-cash transfer income includes before-transfer income plus cash transfers from the government (e.g., social security retirement pension income, AFDC benefits). After in-kind transfer income includes after-cash transfer income plus the expenditures by the government on in-kind transfers (e.g., Medicaid, bonus value of food stamps). After tax income is after in-kind transfer income less personal taxes.

### 2. Recipient Unit Concepts

Four recipient unit concepts are used throughout this paper. Families refer to two or more persons related by blood or marriage and living in the same quarters. Unattached individuals are single persons who may or may not be living alone. The number of households is the sum of the number of families and the number of unattached individuals (households in this paper differs from the conventional use of this term). Persons in poverty refer to all members of households in which income is below the poverty threshold.

### 3. Poverty Thresholds

The poverty thresholds, originally developed by the Social Security Administration, vary by age, size of household, and with farm or nonfarm residence to reflect a minimum adequate level of consumption. They vary from year to year with the price level.

#### 4. Data Sources

The basic source of data for this paper is the Current Population Survey (CPS) of the Bureau of the Census. Some of these data have been processed through a simulation model by the Congressional Budget Office.

The CPS has been subjected to numerous criticisms. In response, new processing techniques were used in 1974 and 1975 that reduced the proportion of the population shown to be in poverty. Since this correction has not been applied to earlier years, the decline in poverty over the decade is somewhat exaggerated. Although the data are nearly all from the CPS, they are not all from the same source and, hence, refer to different years. Most of the data presented in this paper are from 1965 and 1975, and there are no serious comparability problems aside from those noted.

Recently, a large new survey, The Survey of Income and Education (SIE), was conducted to improve our knowledge of the poor. One of several innovations in reporting the data from this Survey has been to use several different poverty measures. <sup>1/</sup> One of these was calculated in the same way as the official poverty thresholds but makes use of more recent consumption data. These updated poverty thresholds result in a 54 percent increase in the proportion of persons classified as poor in the SIE in 1975. Although further data are not yet available, the higher poverty thresholds will also change the composition of the poor -- raising the proportion who are white, male, working and in small families. Lively debates on the relative merits of the SIE versus the CPS data and the appropriate definition of income are in the offing. For the moment, however, the data and poverty definitions presented here are the most comprehensive available.

#### 5. Race

As used in this paper, the term "race" is defined as in the Current Population Survey (CPS). Three categories are recorded in the CPS: White, Negro and all others, with the census taker determining the race of the respondent on the basis of physical appearance. The vast majority of persons who identify themselves to be of Spanish origin are classified as white. Thus, the white category subsumes Mexican Americans, Puerto Ricans and other Latin Americans. Some of the data sources used in this paper retained the census category "white" and grouped all other racial categories under the heading "non-white". Moreover, the non-white category should not be considered as being fully reflective of any one relatively small group in this category. The reader should be aware of the limitations of this racial categorization.

<sup>1/</sup> A description of these alternative measures is contained in the HEW report to Congress, The Measure of Poverty.

### Poverty Defined

This section summarizes different approaches to the definition and measurement of poverty. Three representative measures used to divide the population into those who are poor and those who are not are: (1) the official poverty thresholds; (2) the upper income limit demarcating the bottom fifth of the population; and (3) half the median income.

- The official government poverty thresholds are the most widely used measure of poverty for statistical purposes. They were originally derived by: (1) defining the nutritional needs of families of different sizes and composition; (2) deciding which foods low-income families could buy cheaply which would meet those needs; (3) pricing this market basket; and (4) multiplying the result for most families by a factor reflecting the average expenditure of a family on food. The thresholds are raised each year to adjust for inflation.

The poverty thresholds of need were derived from and refer to consumption potential afforded by cash income only. Some goods and services provided through public or private sources to alleviate poverty -- that is to extend the consumption potential of the poor -- are not considered here. In the same way, they are not taken into account in assessing total consumption potential of the many households above the poverty line who receive such noncash goods and services as a condition of employment or through the same public programs that provide for the poor.

- There are several limitations to the use of the official thresholds. For example, they could be updated to account for changing consumption patterns. One such attempt raises all the poverty thresholds which in turn substantially raised the proportion of persons in poverty. Further, the official poverty thresholds are based on cash income (including cash transfers) only. This measure does not incorporate additional consumption resulting from in-kind transfers, public or private. Ideally, a higher set of thresholds should be developed to reflect this. Nevertheless, in some instances where it is feasible and important, the benefits of in-kind transfers will be included in income with no adjustment to the poverty threshold. The result is to somewhat understate the proportion of the population in poverty.
- Thus, the poverty thresholds comprise one standard of "adequate" consumption. They are obviously a fairly arbitrary standard held constant, in real dollars, over time.



TABLE 1

Estimated Average Poverty Thresholds by Family Size and  
By Farm or Nonfarm Residence: 1976

Size of Family	Total	Nonfarm	Farm
1 Person, under 65 years	\$ 2950	\$ 2960	\$ 2530
1 Person, 65 years and over	2720	2730	2320
2 Persons, head under 65 years	3810	3830	3260
2 Persons, head 65 +	3420	3440	2930
3 Persons	4520	4540	3850
4 Persons	5780	5820	4970
5 Persons	6840	6870	5870
6 Persons	7690	7740	6580
7 or more persons	9450	9540	8080

Source: U.S. Bureau of the Census: Current Population Survey.

- The composition and numbers of poor persons differ significantly depending on how the poor are counted. For example, in a recent HEW report submitted to Congress, the number of poor persons under the "official definition" was 24.4 million for the year 1975. If, however, the current "official definition" was adjusted to reflect revised nutritional requirements and food/nonfood consumption expenditure relationships, the number in poverty increases to 37.5 million. The latter definition is approximately equal to the original poverty line (official definition) brought up-to-date. This adjustment would represent some attempt to incorporate into the measure of poverty the changing living standards arising from increased productivity and/or rising real income of the population. On the other hand, the "official definition" has been changed only to reflect price change since 1963. Unfortunately, the detailed tabulations that would be necessary to analyze the pre-transfer/post-transfer poverty population under these alternative definitions are only now becoming available. Thus, the data in section 5 are limited to the "official definition". They should, of course, be viewed with caution because different segments of the population tend to cluster at different places along the income distribution. Accordingly, the demographic and socio-economic description of the poor will vary with the definition used for selection.

TABLE 2

## Persons In Poverty: Two Alternative Definitions

1975

	<u>Poverty Level</u>			
	<u>Current</u>		<u>Alternate</u>	
	<u>No.</u>		<u>No.</u>	
	<u>(Million)</u>	<u>%</u>	<u>(Million)</u>	<u>%</u>
All Persons (millions)	24.4		37.5	
Percent of All Persons		12%		18%
Total 65 Years and Over (millions)	3.1		6.3	
Percent Of All Aged Persons		14		29
In Families with Male Head (millions)	11.1		18.8	
Percent of Male Headed Families		7		11
In Families with Female Head (millions)	8.4		10.8	
Percent of Female Headed Families		36		46
Unrelated Individuals	4.9		7.9	
Percent of Unrelated Individuals		24		38

Source: U.S. Bureau of the Census: Survey of Income and Education



- An equally reasonable standard is one derived from representative consumption levels in a given year. Families at the median income can be taken to be "representative", and one widely used measure sets the poverty threshold at half the median income. (The choice of one-half the median rather than say 40 percent is, of course, arbitrary.) This threshold rises through time not only because of price level increases, but also because of growing productivity. These poverty measures -- the proportion of persons below half the median income and the share of total income received by the poor defined in this way -- are measures of the degree of income inequality.

TABLE 3

Official Poverty Threshold, and One-Half of the Median  
Income Compared 1965-1975

<u>Year</u>	<u>One-Half Median Family Income</u>	<u>Official Poverty Threshold (Family of Four, Nonfarm)</u>
1965	\$3478	\$3223
1966	3766	3317
1967	3966	3410
1968	4316	3553
1969	4716	3743
1970	4933	3968
1971	5142	4137
1972	5558	4275
1973	6025	4540
1974	6451	5038
1975	6860	5500
% Change 1965-1975	97	71

Source: U.S. Bureau of the Census: Current Population Survey

- Some believe that concern with poverty is, in the end, a concern over distributive justice and that frankly egalitarian measures should be employed to determine who the poor are. The most commonly used of such measures sets the poverty threshold at the income level demarcating the bottom fifth of families and of unrelated individuals. The income level at this boundary line rose by 86 percent between 1965 and 1974. This measure relates poverty to one's position in the income distribution, to the proportion of households below this standard, and to the share of total income going to the poor. It bears no necessary relationship to changes in the price level or to changes in productivity. Poverty is affected only by changes in the shape of the income distribution.

All three measures put about the same proportion of families in poverty in 1960 and gave them about the same share of income. Since that time, however, the proportion of families in poverty has fallen substantially when the official poverty thresholds are used, but has remained fairly constant when the other two thresholds are used (see Section 6). When the poverty thresholds are updated to take account of changing food consumption patterns, there is also no significant decline in the proportion of families in poverty.



TABLE 4

Income Limits and Shares of Income, Lowest Fifth  
1965 - 1974

	<u>Families</u>		<u>Unrelated Individuals</u>	
	<u>Upper Income Limit</u>	<u>Share Of Income</u>	<u>Upper Income Limit</u>	<u>Share Of Income</u>
1965	3500	5.2	900	2.9
1966	3935	5.6	998	3.3
1967	4097	5.5	1000	3.0
1968	4544	5.6	1180	3.3
1969	5000	5.6	1235	3.3
1970	5100	5.4	1368	3.3
1971	5211	5.5	1461	3.4
1972	5612	5.4	1596	3.3
1973	6081	5.5	1872	3.7
1974	6500	5.4	2095	4.0

Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 101, Money Income In 1974 of Families and Persons in the United States, Table 22 pp. 37-38.

The Before-Transfer Poor.

This section will identify that portion of the total population who are poor prior to the receipt of any government transfers -- the "before-transfer poor". This may be a somewhat misleading designation, since in the absence of government transfer programs, some persons in poverty would work more and, because of this, earn their way out of poverty. Also, in the absence of public programs, some poor households now living independently might move in with other non-poor households (e.g., some elderly would live with their children) and such families would no longer be counted as poor. There might also be less fragmentation among the poor as families remain together in order to maximize the number of earners. In the absence of public programs, however, most of the before-transfer poor would still be poor, and undoubtedly there would be considerably more private, charitable, transfers to the poor. The concept of the before-transfer poor does, however, provide an accessible benchmark against which to measure the anti-poverty effectiveness of government transfers.

- By the official definition, excluding transfer income from total income results in 20.24 million households in poverty in FY 1976. This group is comprised of 9.93 million unrelated individuals and 10.3 million families consisting of two or more persons. (The number of before-transfer poor persons has not been estimated.)

TABLE 5

## Before-Transfer Poor, Fiscal Year 1976

Number of Poor Households:	\$20,237,000
Percent of All Households:	25.5
Poor, Unrelated Individuals:	9,932,000
Percent of All Unrelated Individuals:	46.1
Poor, Households Two or More Persons:	10,305,000
Percent of All Households Two or More Persons:	17.8

Source: Congressional Budget Office, Poverty Status of Families Under Alternative Definitions of Income, February, 1977  
p. 10, Tables 3, 4.



- Of 17.2 million poor households in 1975, individuals living alone were nearly three times more likely to be poor without the benefit of government transfer payments than were two-or-more person households. The risk of pre-transfer poverty was over three times greater for persons 65 years of age and over than for younger household heads.
- Households headed by females were over three times as likely to be impoverished as those headed by males. Those of Spanish origin and blacks were one and one-half to two times as likely as male or white-headed households, respectively, to be poor before receipt of these cash transfer payments.

TABLE 6

Poor Households Before-Selected Cash Transfers <sup>1/</sup>  
By Selected Characteristics of the Household Head, 1975

	Number (In Millions)	Incidence Of Poverty
Total Poor Households	17.2	23
Families	8.7	16
Individuals	8.5	42
1. Age		
Under 65	9.2	15
65 and Over	8.0	53
2. Sex		
Male Head	8.1	14
Female Head	9.2	47
3. Race/Ethnicity		
White Head	13.7	20
Black Head	3.2	40
"Other Races" Head	.3	22
*Spanish Origin Head	1.0	33

Source: March 1976, Current Population Survey, Bureau of the Census (special tabulation).

\*Spanish origin households are also included in the totals for White, Black and other races.

<sup>1/</sup> Income is cash income as in the CPS less Social Security cash payments, SSI, and other Public Assistance. Together these account for about two-thirds of all public cash transfers.

Government Transfers to the Poor

This section summarizes the scope of government transfer programs that aid the low income population. The principal focus is on the income maintenance programs which include social insurance programs (such as social security and UI) and income assistance program (which include means-tested cash and in-kind programs such as AFDC and Medicaid).

A broader perspective on government's role can be seen by looking at social welfare expenditures -- these include expenditures from all government programs which deliver health, education, and welfare services.

- In constant dollars, per capita social welfare expenditures grew at an average annual rate of 7.8 percent between 1965 and 1976. In 1976, the rate of increase was 8.3 percent (data not shown). Growth rates have been especially rapid for income assistance programs (AFDC, Medicaid, SSI and Food Stamps). This growth of course, reflects both broadened coverage and rising average benefit levels. In the very recent past the exceptionally sharp recession also led to increased expenditures.



TABLE 7

Per Capita Social Welfare Expenditures, In Constant 1976 Dollars,  
Fiscal Years 1965 and 1976 Compared

	<u>1965</u>	<u>1976</u>	<u>Percent Change</u>
Total	\$ 664	\$1514	128
Social Insurance	242	669	177
Public Aid	54	224	313
(Medicaid)	(12)	(70)	(483)
Health and Medical Programs	54	88	63
Veteran's Programs	51	86	68
Education	242	396	63
Other Social Welfare	18	37	107

Source: A.M. Skolnik and Sophie R. Dales, "Social Welfare Expenditures, Fiscal Year 1976," Social Security Bulletin, January 1977, Table 2, p. 9.

- From 1965 to 1976 the ratio of social welfare expenditures by all levels of government to GNP increased by 75 percent; for the Federal Government it has doubled. The Federal share of total spending has risen from 50 percent to 57 percent.
- Social welfare expenditures have grown more rapidly than total government expenditures. The difference is especially marked at the Federal level.

TABLE 8

Social Welfare Expenditures by Level of Government  
1965-1976 Compared

Social Welfare Expenditures	Percent of GNP	
	<u>1965</u>	<u>1976</u>
Total	12	21
Federal	6	12
State-Local	6	8

Social Welfare Expenditures	Percent of Total Government Expenditures	
	<u>1965</u>	<u>1976</u>
Total percent of all government expenditures	42	60
Federal only as percent of all Federal expenditures	33	56
State and local only as percent of all State and local government expenditures	60	67

Source: Skolnik and Dales, *ibid.*, Tables 3, 5, pp. 10, 12



- This table raises questions about the definition of poverty, on the one hand, and about the target efficiency of public assistance programs on the other. While one might expect for example that all eligible recipients for AFDC and SSI are by definition poor, this is not so for two reasons. First, the official definition and the programatic definition need not be the same. Secondly, a benefit structure that gradually reduces payments in order to maintain work incentives leads to some payments to the non-poor.
- Social Security makes by far the largest contribution to the income of the poor. Fifty percent of the benefits accrue to the before-transfer poor. This reflects the fact that (a) many aged households have few other sources of income and (b) the social security benefit formula is weighted in favor of people with low wage histories.
- Social Security distributes a larger portion of benefits to the before-transfer poor than does the Unemployment Insurance program.
- There is some evidence (not presented) that the share of transfers accruing to the poor, from nearly every program, has declined since 1965. In part, this reflects the decline in the before-transfer poor and in part the effort to increase work incentives.

TABLE 9

Total Transfers, and the Share to the Before-Transfer Poor  
Selected Programs, Fiscal Year 1976

	Total Expenditures (billions)	Percent to Before- Transfer Poor
<u>Cash</u>		
Social Security and Railroad Ret.	\$73.7	50%
Government Pensions	22.7	32
Unemployment Insurance	18.5	19
Workmen's Compensation	3.8	38
Veterans Compensation	5.3	32
Veterans Pensions	2.7	60
Supplemental Security Income	na	na
Aid to Families With Dependent Children (AFDC)	8.7	82
AFDC-Unemployed Fathers	.5	68
<u>In-Kind**</u>		
Housing	2.3	66
Child Nutrition	2.0	43
Food Stamps	4.8	75
Medicaid	14.9	80
Medicare	16.9	51
	Total Revenue (billions)	Percent From Poor
<u>Personal Income Taxes</u>		
State Taxes	24.4	a*
Federal Taxes	181.7	a*

na: not available

\* a; under one percent

\*\* In addition to the programs listed here there are a number of other in-kind programs which serve the poor as part of their constituency but are not included in the list, e.g., Title XX Social Services, Head Start, Vocational Rehabilitation, Child and Maternal Health, Neighborhood Health Centers, Legal Services.

Source: U.S. Congressional Budget Office, special tabulation.

- There is considerable month-to-month turnover in the AFDC population.
- There is also stability in the AFDC population. In both 1967 and 1975 more than 25 percent of AFDC families had been in the program 5 or more years.



- Public Assistance recipients are highly mobile geographically. Forty-five percent of AFDC recipients in 1975 occupied their current living quarters one year or less. (Date not shown).
- There is little hard evidence to support the contention that welfare recipients move primarily to raise their benefit levels. Employment and earnings opportunities appear to provide the primary impetus for migration.
- Recipient mobility increases the potential for interrupted or duplicative payments, errors, and increased administrative costs.

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TABLE 11

Geographic Mobility in 1974: Public Assistance and  
All Other Families Compared

	Percent of Public Assistance Families	Percent of all Other Families
In Same House All Year	66	84
Different House	34	15
Same SMSA	18	7
Not Same SMSA or Rural Area	16	8

Source: U.S. Bureau of the Census, Current Population Reports,  
Population Characteristics, Series P-20, No. 305,  
January 1977 "Geographical Mobility, March 1975 to  
March 1976", Table 31, p. 73



The After-Cash Transfer Poor -- The Official Poverty Concept

This section summarizes the position of the poor after all government cash transfers have been taken into consideration, examines changes in the composition of the poor between 1965 and 1975, and highlights the flow of persons in and out of poverty status. This section also examines the composition of the after-cash transfer poor with respect to common measures of educational attainment and labor force involvement. Lastly, this section distinguishes between the poverty population and the recipients of government income maintenance transfers, since these two populations, although overlapping, are not coincident.

- Tables 5 and 12 are not strictly comparable, but when compared they suggest that cash transfers cut the proportion of unrelated individuals and families in poverty in half.

TABLE 12

After-Cash Transfer Poor  
1975

Number of Poor Families:	5,450,000
Percent of All Families:	9.7
Poor, Unrelated Individuals:	5,088,000
Percent of All Unrelated Individuals:	25.1
Poor Persons:	25,877,000
Percent of All Persons:	12.3

Source: U.S. Bureau of the Census, P.60, No. 103, p.34, Table 10 and Current Population Survey.

- Adding Old Age Survivors Insurance, Supplementary Security Income, and other Public Assistance to other cash income reduces the incidence of poverty among families by 5 percentage points. (See Table 6.)
- As would be expected, the reduction in the incidence of poverty among aged households is especially dramatic. The proportion of elderly families in poverty is reduced from 53 percent to 19 percent by these programs.
- The proportion of families in poverty headed by women is also dramatically reduced by these three programs (from 47 percent to 30 percent).



TABLE 13

Selected Characteristics of Poor Household Heads  
1975

	Number (In Millions)	Incidence of Poverty
Total Poor Households	10.5	14
Families	5.4	10
Individuals	5.1	24
1. Age		
Under 65	7.7	13
65 and Over	2.8	19
2. Sex		
Male Head	4.7	8
Female Head	5.8	30
3. Race/Ethnicity		
White Head	7.8	12
Black Head	2.5	32
"Other Races" Head	.2	18
*Spanish Origin Head	.9	27

Source: March 1976, Current Population Survey, Bureau of the Census (special tabulation).

\*Spanish origin households are also included in the totals for White, Black and other races.

1. Income is cash income as in the CPS less Social Security, Cash Payments, SSI, and other Public Assistance. Together these account for about two-thirds of all public cash transfers.

- The probability of being poor depends upon both the characteristics of families and where they live. Persons in female headed households, particularly related young children, are more likely to be poor than those who are older and in male-headed households. The probability of being poor is higher for persons living in central cities and non-metropolitan areas than those in the non-central-city portions of metropolitan areas.
- Even after cash transfers are taken into consideration the probability of remaining in poverty is unevenly distributed. For example, a Spanish origin child under 3 in a female-headed household in the central city is about 16 times as likely to be poor as persons in a family with a white male head.

TABLE 14

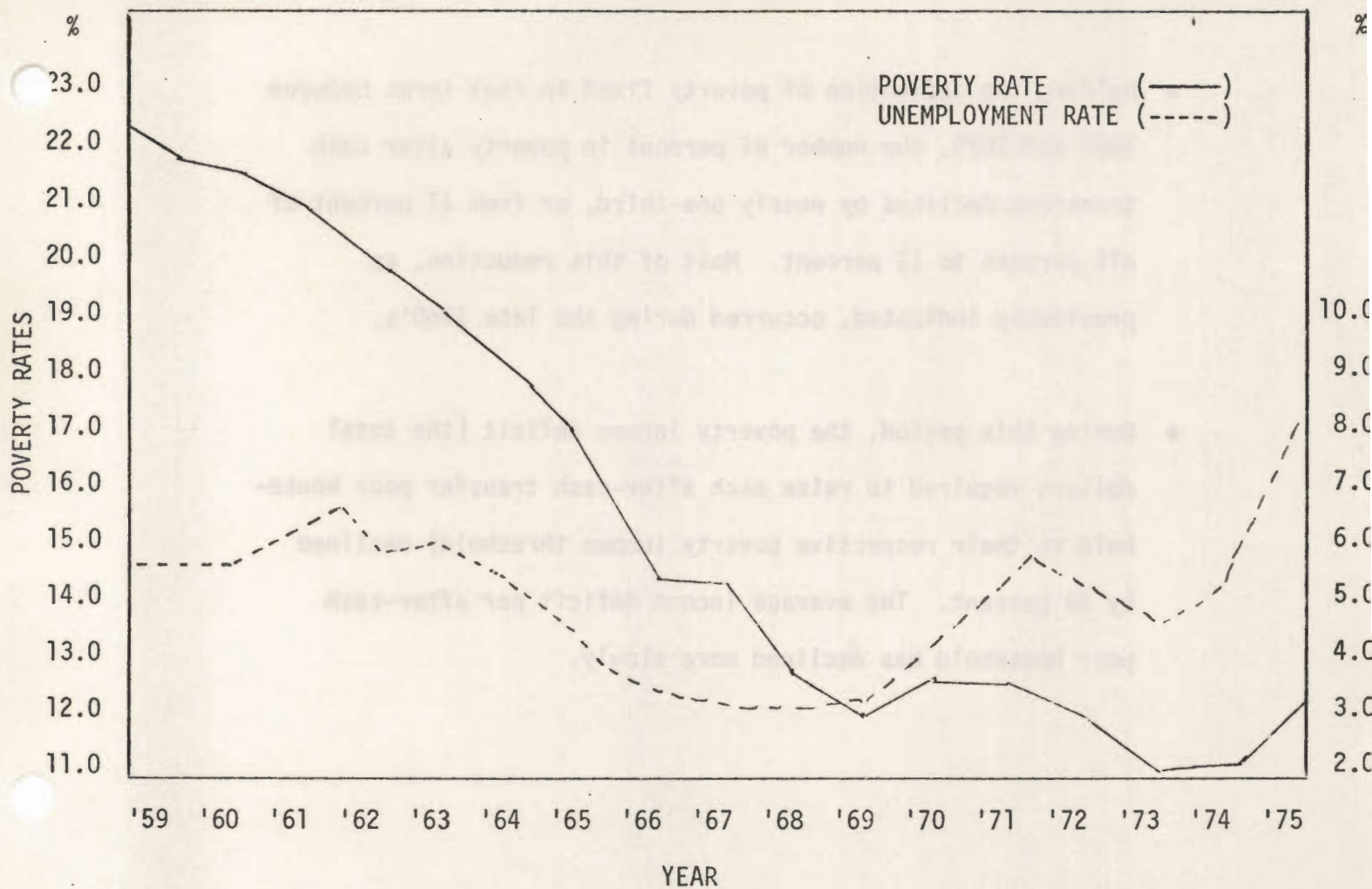
Probability of Being Poor for Persons  
in Families with Selected Characteristics  
1975

	<u>Central City</u>	<u>Other Metro</u>	<u>Non- Metro</u>
1 Related children less than 3 years of age in families headed by a Spanish origin female	83	62	65
2 Related children less than 3 years of age in families headed by a Black female	75	66	72
3 Related children less than 3 years of age in families headed by a White female	71	61	68
4 Related children less than 18 years of age in families headed by a White female	46	35	42
5 Persons in families with Spanish origin male head 65 years old and over	20	16	33
6 Persons in families with Black male head 65 years old and over	12	24	33
7 Persons in families (total)	14	7	14
8 Persons in families with White female head 65 years old and over	7	4	9
9 Persons in families with White male head 65 years old and over	4	4	9
10 Persons in families with White male head under 65 years old	5	3	8

Source: U.S. Bureau of the Census, Survey of Income and Education

- The performance of the economy exerts a strong impact on the number of persons in poverty. Poor households headed by a male under the age of 65 benefit most from high rates of economic growth. Poor households headed by females, however, appear to be largely unaffected by general economic growth primarily because wage rates of white women are rising more slowly than average wages. (Data not shown.)
- Figure I displays the visible relationship between the incidence of poverty and the unemployment rate. In fact, the relationship is stronger than is shown in Figure I, because the increase in government transfers during recessionary periods reduces the downward trend in the poverty rate.
- A rise in the unemployment rate increases the incidence of poverty among white male family heads under age 65 more sharply than for any other group. White female family heads under age 65 are significantly affected by recession through a decline in hours worked. (Data not shown.)
- The incidence of poverty showed the greatest decline during the high growth years of the late 1960's. Increases in productivity and overall employment during these years were very beneficial to the poor. No such trend is evident during the seventies as the effects of two recessions have taken their toll. In addition, growth during the 1960's has removed the more upwardly mobile from poverty.





Sources: U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 103, "Money Income and Poverty Status of Families and Persons in the United States: 1975 and 1974 Revisions," Pg. 34, 1976 Series P-60, No. 68, "Poverty in the United States: 1959 to 1968," Pg. 24, 1969, U.S. Government Printing Office, Washington, D.C.

Council of Economic Advisors, Economic Report of President, transmitted to the Congress January 1976, Pg. 199, 1976, U.S. Government Printing Office, Washington, D.C.

Figure I. Poverty Rates of all Persons and Unemployment Rates for all Workers, U.S., 1959 - 1975.

- Holding the definition of poverty fixed in real terms between 1965 and 1975, the number of persons in poverty after cash transfers declined by nearly one-third, or from 17 percent of all persons to 12 percent. Most of this reduction, as previously indicated, occurred during the late 1960's.
- During this period, the poverty income deficit (the total dollars required to raise each after-cash transfer poor household to their respective poverty income threshold) declined by 24 percent. The average income deficit per after-cash poor household has declined more slowly.

TABLE 15

Families and Persons In Poverty and Income Deficit: 1965 and 1975 Compared  
(After-Cash Transfer)

Families	<u>1965</u>	<u>1975</u>
No. (thousands)	5,721	5,450
% of All Families	14	10
Persons		
No. (thousands)	33,185	25,877
% (All Persons)	17	12
Income Deficit, Household		
Aggregate (billions, 1974 dollars)	\$ 18.2 <sup>1/</sup>	\$ 13.9
Average Per Household (1974 dollars)	\$ 572 <sup>1/</sup>	\$1,374

<sup>1/</sup> Average of 1963 and 1967.

Source: U.S. Bureau of the Census, *ibid.*, No. 103, pp. 9 and 37, No. 68, p.21, pp.27-28, 77., and Current Population Survey.

- Between 1965 and 1975, the percentage of the after-cash transfer poor who are in households with a head under the age of 65 has risen from 82 percent to 87 percent. At the same time, the percentage of poor households with female heads has risen from 33 to 47 percent. This increase reflects a multitude of other trends. Higher Social Security benefits and higher private pension benefits increase the number of independent aged households while also reducing the proportion of poor, aged households. An increase in the young population, coupled with a tendency to defer marriage and a career, and higher nationwide unemployment rates for the young, have raised their proportion in poverty. The increased divorce rate, in part, made possible by higher assistance benefits despite the frequency of remarriage, raises the pool of households headed by women at any one time and, hence, their share of the proportion of families in poverty.
- The most dramatic change during this period has been an increase of 14 percent in poverty among persons living in female-headed households, while the proportion of poverty in male-headed households has decreased by the same amount.
- In 1975, the minority race or ethnicity of a family head increased the likelihood of poverty for family members by nearly three times that of White-headed family members.



TABLE 16

Percentage of Poor Persons by Selected Characteristics of the Household Head  
1965 and 1975 Compared

Characteristics of the Head	Percent	
	<u>1965</u>	<u>1975</u>
Under Age 65	82	87
Over Age 65	18	13
Non-White	32	31
Male	67	53
Female	33	47
White	*	10
Black	*	31
**Spanish Origin	*	27
Number of Poor Persons (millions)	33.2	25.9

Sources: U.S. Bureau of the Census, *ibid.*, No. 103, pp.34-35,  
No. 102, pp.13-14.

\*Data are not available for 1965

\*\*An unknown proportion of Spanish origin persons is included in the  
White and Black population.

- Since 1965, the percentage of poor families with young heads has increased more than in proportion to their increase in the population.

TABLE 17

Percentage of Families in Poverty by Selected Age of the Head  
1965 - 1975 Compared

Age:	<u>1965</u>	<u>1975</u>
65 and over	23	13
35-64	49	47
Under 35	28	40
25-34	(19)	(24)
Under 25	(9)	(16)
Total	100	100

- Households headed by women, aged persons, black and other minority groups will more often find themselves relying on public transfers than their young, male white counterparts. Moreover the transfer payments going to the women, the aged, the minorities, will more often come from public assistance as opposed to Social Insurance programs than is the case for the men, the young, and the white population respectively.
- One out of four women's families received three-fourths or more of its income in the form of public transfers compared with one in 17 of the men's families. Public assistance was the chief source of support for one of seven of the women's families, but for almost none of the families headed by a man alone or a husband-wife combination. Poor families regardless of sex of head, had to rely more heavily on public transfers than families with higher income, but even among the poor, it was a public assistance payment that would go to the needy woman's family and a Social Security check to the man's.



TABLE 18

Source of Money Income of All Families  
and Families Below Poverty Line, by Sex of Head, 1975

Type of Income	All Families		Poor Families	
	Male Head	Female Head	Male Head	Female Head
Percent distribution of aggregate income:				
	100.0	100.0	100.0	100.0
All Types				
Earnings	86.2	64.7	52.9	26.5
Public Transfers	6.8	23.4	42.8	65.9
Social Security <sup>1/</sup>	4.3	11.4	21.0	11.4
Supplement Security Income	0.2	1.2	4.2	3.3
Other Public Assistance	0.3	8.0	8.8	48.4
Other Programs <sup>2/</sup>	2.0	2.8	8.8	2.8
All Other Types	7.1	11.9	4.2	7.6
Percent of families receiving specified type				
Any type	99.9	98.7	98.3	96.0
Earnings	90.0	74.2	71.0	47.5
Public Transfers	39.0	64.3	54.8	76.2
Social Security	20.9	32.3	28.3	17.0
SSI	2.1	7.3	10.7	7.5
Other Public Assistance	2.3	28.2	14.3	60.0
Other Programs	20.3	15.8	17.7	8.5
All Other Types	57.6	45.5	22.9	20.8
Percent of families receiving majority of income from specified type <sup>3/</sup>				
Earnings	75.6	40.5	46.7	16.6
Public Transfers	6.4	25.3	33.1	54.1
Social Security	4.1	5.3	16.6	7.0
SSI	0.2	0.5	2.2	1.3
Other Public Assistance	0.3	13.3	4.4	37.2
Other Programs	0.4	0.5	2.9	1.1
All Other Types	1.6	2.9	3.4	4.4

<sup>1/</sup> Social Security or retirement benefits to any family member.

<sup>2/</sup> Unemployment v. workmen's compensation and veterans payments.

<sup>3/</sup> Specified type represents 75 percent or more of total family money income.

Note: Percents receiving specified type of income add to more than 100 percent because some families receive more than one of the specified types of income. Some families with female head report no income during 1975 because the husband or other adult receiving the income was no longer present in the family in March 1976 when the information was collected.

TABLE 19

Incidence of Poverty Among Husband-Wife Families,  
By Work Experience of Wife, 1975

Work experience of wife  
and of husband, 1975

Poverty Rate  
(Percent)

5-17

- In 1975, among husband-wife families, the incidence of poverty ranged from 2 percent, where both husband (all year) and wife worked, to 17 percent where neither the husband nor the wife worked.
- The probability of being poor for such families was also influenced by the wife's employment status. Regardless of the husband's work experience, a working wife reduced the risk of family poverty by nearly one-half.

- Of those household heads in poverty who might reasonably be expected to be in the labor force (category #3), 65 percent are, in fact, actively seeking employment or are actually employed.
- A somewhat smaller proportion of all persons in this category are in the labor force.
- Any effort to induce larger proportions of these persons to work, must deal with the fact that a bit more than a quarter of the employable population, though between the ages of 17-55, have less than an eighth-grade education. Moreover, this population includes a substantial number of persons who have an added disadvantage in the employment market by virtue of their race, ethnicity, sex or limited English-speaking ability.

TABLE 20

Selected Labor Force Related Characteristics: Poverty Population  
1974

	<u>Household Heads</u>	<u>Persons No. (millions)</u>
(1) Number of poor (millions)	8.7	24.2
(2) Number of total poor who are:		
Age 55 or over (millions)	3.9	5.1
Age under 17 (millions)	a	10.0
Age 17-21 and in school (millions)	a	.6
Ill or disabled (millions) <u>1/</u>	a	a
Female head with child under 6 (millions)	1.0	1.0
(3) None of the Above (millions) <u>2/</u>	3.7	7.5
In civilian labor force (millions)	2.4	4.1
Percent of line (3)	65%	54%
Employed (millions)	2.0	3.2
Percent of line (3)	54%	43%
Less than 8th grade education (millions)	1.1	2.0
Percent of line (3)	30%	17%
8th grade education or more (millions)	2.6	5.5
Percent of line (3)	70%	73%

1/ All of last year and in the survey week.

2/ This category equals the total poor minus the five selected sub-categories.

a: Less than .1 million

Source: Special Tabulation of Current Population Survey, March 1975.



- There is a continuous flow of people in and out of poverty.  
For example, in 1967 there were 22.4 million poor persons. By 1968, 7.3 million of these had left poverty and 5.6 million new persons entered poverty (Data not shown).
- On average, 30 to 40 percent of the poor will escape poverty during a given year and an equivalent (though slightly lower) number of persons will fall into poverty during the same year.
- Between 1967 and 1972, between 8 and 11 percent of the population were poor in each year. However, less than 3 percent were poor in every year, while 21 percent of the population fell into poverty during one or more of these years. Seven percent of the population had an average income below the poverty threshold over the six-year period. (Data based on national longitudinal sample.)
- This high rate of turnover in the poverty population also means that the number of persons eligible for government transfers over a six-year period substantially exceeds the number eligible in any one year.

TABLE 21

## Length of Time in Poverty Over the Six Years 1967-72

Persons in Poverty In:	Percent
1967	11
1972	8
Every Year for Six Years	2
In at Least One Year	21
"Permanently Poor"*	7

\*Permanently poor refers to persons whose average income over the six years was less than the poverty threshold.

Source: U.S. Department of Health, Education and Welfare, "The Changing Economic Status of 5000 American Families", (Mimeo), May 1974, p.14.

The After In-Kind Transfer Poor

This section examines the number and composition of the poor after the receipt of both cash and in-kind transfers. There is considerable controversy, however, over the manner and extent to which in-kind transfers contribute to the income of the poor. The results presented in this section depend crucially upon the assumption that the value recipients place on in-kind transfers is equal to their cost to the government. Many recipients value these benefits at less than their cost. Some of the poor would like less medical care and more clothing. Others would like less housing and more transportation. These people would willingly take less in cash than the government now spends on their behalf, since they would gain greater command over the mix of goods they could consume. Hence, the proportion of the population in poverty is understated in this table:

- In FY 76, 20 million households are poor prior to the receipt of any government transfers. After all cash transfers are considered, 9 million households are still in poverty. After in-kind transfers are included, at their cost to taxpayers, 5.3 million households are still in poverty. A final adjustment for personal income and employee payroll taxes leaves 5.4 million households, or 7 percent of the population still below the poverty thresholds.
- The percentage of all multiple person families in poverty falls by 80 percent to 4 percent of all such families. The percentage of all unattached individuals in poverty falls by 70 percent to 5 percent.

TABLE 22

## Difference Between Before and After Transfer Poor

FY 1976

	Households w/Before Tax Before-Trans. Income Below the Poverty Standard	Households w/Before Tax After Soc. Insurance Income Below the Poverty Standard	Households w/Before Tax After All Cash Trans. Income Below the Poverty Standard	Households w/Before Tax After In-Kind Transfer Income Below the Poverty Standard	Households with After Total Tran and Tax In come Below the Poverty Standard
1. All Households					
1. Number (thousands)	20,237	11,179	9,073	5,336	5,445
2. % All Households	25	14	11	7	7
2. Unattached Individuals					
1. Number (thousands)	9,932	5,582	4,752	3,076	3,142
2. % All Unattached Individuals	46	26	22	14	15
3. Multiple Person Families					
1. Number (thousands)	10,305	5,597	4,321	2,260	2,303
2. % All Multiple Person Families	18	10	8	4	4

Source: Congressional Budget Office, *ibid.*, Tables 3,4, p.10.



- Taking all transfers and personal taxes into account substantially increases the proportion of the poor who are unattached individuals, or who live in the South, and most dramatically, who are under age 65. Though exactly comparable data are not available, a similar study for an earlier year also notes a dramatic increase in the proportion of poor household heads who are women.
  
- To the extent that government transfers permit low-income aged persons or single parent families to maintain separate households, they contribute simultaneously to an increase in personal welfare and to an increase in the number of households who are poor. Because of effects like this, a simple comparison between before-and after-transfer poverty cannot be a precise measure of the anti-poverty effectiveness of government transfers.

TABLE 23

Selected Characteristics of the Household Head Before- and After-Transfers  
Fiscal Year 1976

	<u>Before</u>		<u>After</u>	
	No. (Millions)	%	No. (Millions)	%
Single Person Families	9.9	49	3.1	58
Multiple-Person Families	10.3	51	2.3	42
Under Age 65	10.9	54	4.8	88
Over Age 65	9.3	46	.6	12
White	16.3	81	4.2	77
Non-White	3.9	19	1.2	23
South	7.4	36	2.5	45
West	3.7	18	1.0	19
Northeast	4.6	23	.9	17
North Central	4.6	23	1.0	19

Source: Congressional Budget Office, *ibid.*, Tables 4,5,6,7,9, 10-15.

- Under relative definitions of poverty there has been virtually no progress during the last decade. For example, the share of income going to the poorest 20 percent of families, or the proportion of families with incomes less than half the median income is virtually unchanged over the past decade. In contrast, the proportion of officially poor persons has declined from 13.9 to 9.2 percent of the population.

TABLE 24

Alternative Measures of the Incidence of Poverty  
1965-1975

<u>Year</u>	<u>Percent of Families With Income Below One-Half the Median</u>	<u>Percent of Families Below Poverty Threshold</u>	<u>Percent of Total Cash Income Bottom 20% of Families</u>
1965	19.8	13.9	5.2
1966	19.2	12.7	5.6
1967	18.7	11.4	5.5
1968	18.3	10.0	5.6
1969	18.5	9.7	5.6
1970	19.0	10.1	5.4
1971	19.3	10.0	5.5
1972	19.4	9.3	5.4
1973	19.3	8.8	5.5
1974	19.4	9.2	5.5

Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 101, "Money Income in 1974 of Families and Persons in the United States," p.37 and Series P-60, No. 103, "Money Income and Poverty Status of Families and Persons in the United States; 1975 and 1974 Revisions (advance Report)", p.17, U.S. Government Printing Office. U.S. Department of Health, Education and Welfare, The Measure of Poverty, Technical Paper No. XXIII, "Relative Poverty", p.3. Private communication, U.S. Bureau of the Census.



CRITICAL ANALYSIS OF THE WELFARE SYSTEM

INTRODUCTION

This paper assesses the structure and performance of the current welfare system. A fair critique can serve as a basis for comparing alternative approaches to welfare reform.

Paper Two, "The Income Security System: Purposes, Criteria, and Choices," suggested a set of criteria against which welfare programs can be judged. The first section of this paper uses these criteria to evaluate the existing system. Using specific examples, this section highlights the major criticisms of current programs.

Paper Two also revealed that even those with common objectives and evaluation criteria can disagree substantially about the resolution of fundamental design issues. For the same reasons, critics disagree substantially about the basic problems with the current system, about the relative importance of particular problems, and about the structural or administrative deficiencies from which these problems arise. One person's problem may be another person's solution. Consequently, a single, overall critique of the system cannot do justice to the views of all critics.

The second section of this paper is comprised of more pointed critiques, each based on a different conception of welfare reform. Explicit in each approach is a view of how the system should be structured, how it should be funded and administered, and how it should deal with a variety of other important issues. Implicit in these views is the notion that current arrangements are somehow inappropriate. The specific critiques will emphasize these most important differences. For example, the system will be criticized from the view of those who wish to narrow eligibility as well as those who would expand it. The fundamental disagreements over income security policy -- whether they arise from different values, different objectives, or different weights on competing criteria -- are mirrored in the criticisms of the current system.

Some might organize these specific critiques differently. We attach no special importance to this particular taxonomy, but it appears to include all major approaches to reform. The purpose of the specific critiques section is not to present a complete analysis of the pros and cons of each approach. Our goal is to use these approaches and their specific critiques to highlight the ills of the current welfare system and to clarify the disagreements on how that system should be changed.

CRITICISMS OF THE WELFARE SYSTEM

This section of the paper, presents the major criticisms of current welfare programs in the context of the evaluation criteria discussed in Paper Two. Almost all of the complaints that together are described as "the welfare mess" can be traced to a failure to meet a particular criterion. Not everyone will agree on each specific criticism; in fact, many are contradictory. Consideration of these many and diverse criticisms, however, will provide a better basis for sorting through the several specific critiques that follow.

### Adequacy

The system frequently provides inadequate assistance to the low-income population.

- The aged, blind, and disabled poor are eligible for the Federal SSI program, which assures each eligible individual a minimum income of \$2014 (or \$3022 for a couple). Almost all States supplement the Federal basic benefit for some recipients.<sup>1/</sup> In addition, most SSI recipients are eligible for Food Stamp and Medicaid benefits. Though basic SSI benefits for an individual are only about 75 percent of the poverty line, with other benefits considered the package guaranteed close to poverty line income.
- Benefits for low-income, single-parent families vary widely by State. In only four States did AFDC plus Food Stamps provide benefits greater than the poverty level in 1975 (\$5500 for a family of four). In 24 States, benefits from these two programs amounted to less than three-quarters of the poverty threshold.
- Income assistance for the rest of the low-income population, primarily the "working poor", is provided mostly through the Food Stamp program, which assures only \$1992 to a family of four and \$600 to a single individual (in both cases with no other income); and those benefits can be spent only on food. (Though this limitation may not significantly reduce the economic value of the program to most families, it clearly would for those with no other income.)
- About half the States have a special AFDC program for families with unemployed fathers. But these programs help only a small group of families, in part because of restrictive eligibility rules and partly because of low participation rates. Many States also provide some general assistance to poor families not eligible for AFDC or SSI, but except for a couple of notable exceptions (like Pennsylvania and New York), these programs are relatively limited in coverage or benefits or both.

<sup>1/</sup> See Appendix A for description of State supplements.



The table below arrays an illustrative sample of benefit levels against several benchmarks of adequacy:

Table 1. A SAMPLE OF BENEFIT LEVELS FOR A FAMILY OF FOUR ARRAYED WITH VARIOUS STANDARDS OF ADEQUACY. (1975 data) (All numbers for four person family except median family income and minimum wage.)

	Income Standard	Selected Total Family Income
MEDIAN FAMILY INCOME (US)	<u>\$13,720</u>	
BLS LOW-INCOME BUDGET	<u>9,720</u>	
New York City family with AFDC, food stamps, and Medicaid (valued at cost)		<u>\$8,015</u>
ONE-HALF MEDIAN FAMILY INCOME	<u>6,860</u>	
Illinois family with AFDC, food stamps, and Medicaid		<u>6,280</u>
OFFICIAL POVERTY LINE	<u>5,500</u>	
Texas family with AFDC, food stamps, and Medicaid		<u>4,355</u>
Family earning full-time minimum wage, plus food stamps		<u>5,588</u>
Mississippi family with AFDC, food stamps, and Medicaid		<u>3,002</u>
Family with food stamps only (all States)		<u>1,944</u>

The system provides more than adequate benefits to some families. In high benefit States, some families can receive benefits from several programs totalling well over the poverty line. In New York City in 1974, the average total income for an AFDC family of four was about \$6,600; for a family of six or more the same average was about \$9,400 (See bar chart on next page).

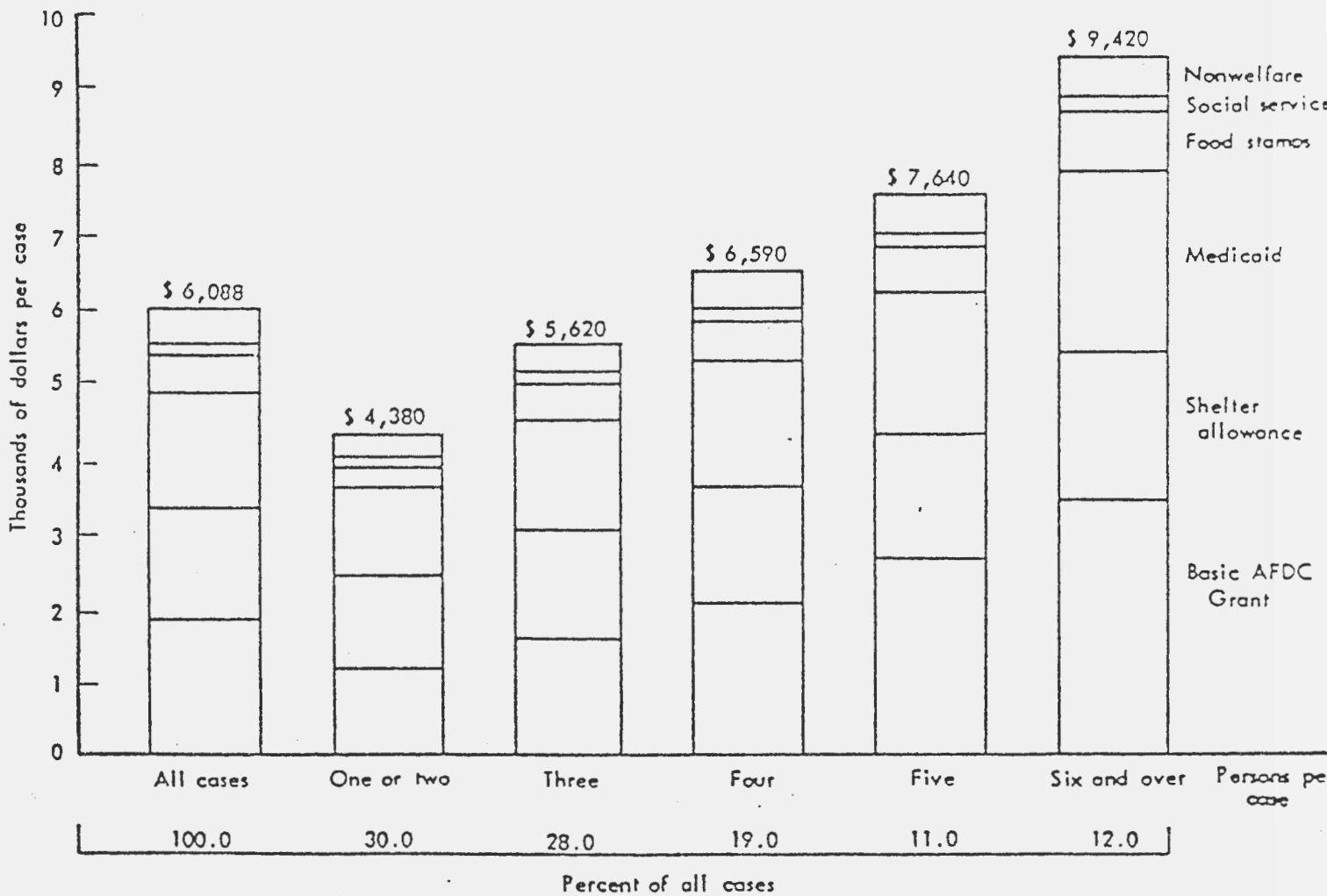
The system fails a major test of adequacy: It does not eliminate poverty. An important way to judge the adequacy of income security programs in summary fashion is to look at their effectiveness in reducing poverty thresholds

- Subtracting taxes and transfers, 25 percent of all households have incomes below the official poverty thresholds
- After cash transfers, the proportion of households in poverty is reduced to 11 percent, while after in-kind transfers, the proportion is further reduced to 7 percent. 2/ (See Paper 3, Table 22.)

1/ There are several controversial issues surrounding the current poverty thresholds. These numbers would change with a different definition of poverty.

2/ The latter result is highly controversial due to issues relating to the valuation of in-kind transfers.

AVERAGE TOTAL INCOME FOR AFDC CASES IN NEW YORK CITY  
BY SOURCE AND CASE SIZE, 1974



Source: The Rand Corporation, Multiple Welfare Benefits in New York City.



## Equity

Benefits vary widely and inequitably across States, even within the same program. Undoubtedly, the most striking feature of current AFDC benefit levels is the variation from State-to-State. The range in maximum benefit levels (for a family of four with no other income) stretched from \$720 per year in Mississippi to \$5954 in Hawaii. While this juxtaposition of benefits provides a stark comparison, variations are also significant between more proximate States.

Table 2. Comparison of (combined) AFDC and Food Stamp benefits in contiguous States (annual benefits to 4-person families with no other income) (1976 data).

	<u>AFDC</u>	<u>AFDC plus food Stamps</u>
Maine	\$3336	\$4404
New Hampshire	4152	5004
Tennessee	1584	3168
Kentucky	2820	4032
Missouri	2040	3468
Kansas	3540	4536
Texas	1680	3228
Oklahoma	3408	4476
Connecticut	4164	5016
New York	5712	6132

Wide variations in State and local spending per poor person are exacerbated by equally wide variations in Federal spending. Consequently there exist large State-to-State differences in average annual combined welfare expenditures, ranging from over \$3,000 per poor person in Hawaii to \$370 in Wyoming. Federal spending varies from \$1,688 per poor individual in Hawaii to \$283 in Wyoming. The inequitable pattern of Federal welfare spending is a direct result of the predominant role of grant-in-aid programs, like AFDC and Medicaid, in the current income assistance system. Poorer States often must decide not to offer some programs, or to set benefits at low levels. For example, the Federal share of basic AFDC benefits (to a family of four with no other income) varies from \$600 per year in Mississippi to \$3,072 per year in Vermont (all data are for 1976).

The disparity in benefits is not so wide in the SSI program. With State supplements included, basic benefits for a non-institutionalized aged individual vary from the Federal minimum of \$2,014 per year in 28 States to \$3,389 in Massachusetts. The inequity is less egregious in the SSI program, however, because the Federal Government provides a uniform benefit, varying only by income, to aged, blind, and disabled citizens of all States.

Benefits vary widely and inequitably across demographic groups. The existing categorization leads to uneven coverage of various demographic groups and irrational and differential treatment of families with comparable need.

- Two-parent vs. single-parent families. AFDC is restricted to families in which the father is dead, severely disabled, continuously absent from the home or, in 26 States and the District of Columbia, unemployed. Thus, a two-parent family with two children, the father working full-time at the minimum wage, is left with total income less than the poverty level even after Food Stamp supplementation, while a mother and three children can attain a greater monthly income from AFDC alone in several States. If the mother chooses to work, say at the minimum wage, she can supplement her low wages with AFDC and Medicaid in addition to Food Stamps; in so doing, her family's net income can exceed the intact working family's income by well over \$1,000 not counting Medicaid (which can exceed \$1,000 dollars). Yet these families' needs certainly do not differ much (particularly since the mother's child care expenses are fully reimbursed by AFDC). (See Table 3 for a hypothetical example.)

Table 3. Comparison: Two-Parent Family and AFDC Family with Same Earnings in Michigan (1976)

	(4 person families)	
	<u>Two-Parent Family, Father Employed</u>	<u>AFDC Family, Mother Employed</u>
Earnings	\$7000	\$7000
Social Security Tax	-410	-410
Federal Income Tax	-273	-282
Earned Income Tax Credit	+100	+100
AFDC	---	+1211
After Tax Cash and Transfer	6367	7569
Food Stamp Bonus	<u>+312</u>	<u>+288</u>
Total Family Income	6679 Plus not eligible for Medicaid	7857 Plus Medicaid

- Restriction of AFDC-UF to unemployed fathers. On the other hand, if the father in the above example is unemployed, or employed for less than 100 hours a month, the family could be eligible for AFDC in 26 States and the District of Columbia. In fact, if the father's full-time job were cut back to half-time, the family would receive AFDC and realize a higher net income. Not only does this discourage full-time work, but it is highly inequitable to full-time workers.
- Unrelated, non-aged individuals. Income assistance for non-aged childless couples and unrelated individuals is limited to food stamps (worth only \$600 a year to an individual with no income) except in States that provide general assistance. General assistance benefits are quite limited except in a few States.
- Aged vs. non-aged. Benefits for the aged are generally higher than benefits for non-aged. In about half of the States, the SSI Federal benefit for a couple (\$3,022 annually with no other income), is more than the largest amount paid to a family of four persons on AFDC in the same State.

Peculiarities of benefit structures lead to other serious inequities.

- Inconsistent treatment of earnings in AFDC. AFDC benefits are determined differently for applicants than for recipients. An applicant can be denied AFDC while a recipient with the same earnings and family structure continues to receive assistance. The impact on total family income can be sizeable; for example, for a hypothetical case in Illinois (See Table 4) the difference between two families who differ only in whether they began working before or after application for AFDC would be \$130 per month (\$1,560 annually) not counting Medicaid, child care, or food stamps.

Table 4. Nonrecipient Mother with Three children and Earnings versus AFDC Recipient with Comparable Family and Earnings (1976).

Illinois: AFDC (4 persons)		\$317
<u>Applicant</u>		
Earnings		400
Work expenses		60
Countable income		340
AFDC		0
Total family income		\$400 plus probably not eligible for Medicaid
<u>Recipient</u>		
Earnings		\$400
Work expenses		60
Countable income		187
AFDC		130
Total family income		\$530 plus Medicaid



Inequitable treatment of this nature arises merely out of the coincidence of timing. For example, a woman earning \$4,200 annually may be ineligible for AFDC supplementation, while her co-worker or neighbor -- who was receiving AFDC and then took an identical job -- receives free day care, Medicaid, Food Stamps, and AFDC to supplement her wages.

- AFDC-UF Notch. Inequities result from "notches" in benefit structures whereby a small increase in earnings causes a large reduction in benefits. Notches constitute serious work disincentives; they have the perverse effect of making recipients worse off when they increase their work effort. For example, if a father receiving benefits from AFDC-Unemployed Fathers increases his work hours from 100 hours a month to 101 hours, his family becomes ineligible for assistance.
- Medicaid Notch. The medicaid notch can be particularly costly to recipients. Only a dollar a month increase in cash income can precipitate the loss of medical benefits (as well as eligibility for food stamps). The medicaid notch, because of its high potential value, creates a clear incentive for an employed AFDC recipient to act in an undesirable manner. For example, if a wage increase of \$50 a month would make a recipient ineligible for benefits, there is a considerable incentive to increase child care expenditures by \$50 a month so that eligibility can be retained.

Inequities often compound to create even wider disparities geographically and between covered and uncovered demographic groups.

- Wide disparities among the States in AFDC needs (or payment) standards are paralleled by equally wide disparities in the proportion of the low-income population eligible for cash assistance (since payment standards determine eligibility breakeven levels).
- In general, categorical eligibility linkages widen the gap between persons eligible for assistance under the current array of categorical programs and those left out.

Inequities arise in the allocation of benefits which are in limited supply. In the distribution of in-kind benefits, such as public housing and day care, for which the target population exceeds the available supply, inequities are unavoidable between those who get the benefits and those who do not. For example, a HUD study of subsidized housing programs estimated that less than 10 percent of the eligible population received benefits from these programs in 1972.

### Target Efficiency

We spend almost \$200 billion a year on income security programs, but we still have not eliminated income poverty. About 11 percent of all households have incomes below the official poverty thresholds after cash transfers, and about 7 percent are poor after in-kind transfers. Social insurance expenditures account for nearly three-quarters of all income security transfers, with the remaining 25 percent attributable to the income-tested programs.

1/ In practice, the actual importance of this notch may be less because medicaid may be retained for four months after losing AFDC because of employment, and the job may provide some health benefits.



- As a whole, the social insurance programs are not as target efficient as the means-tested programs. Only social security and medicare paid as much as half of all benefits to the pre-transfer poor; both paid about 50 percent of their benefits to this group. (Paper 3, Table 9.)
- Benefits paid in the income-tested programs were concentrated more on the before-transfer poor. The following proportions of benefits were distributed to persons below the poverty line in the three largest programs:

Percent to Pre-Transfer Poor

AFDC	82
Medicaid	80
Food Stamps	75

Many poor persons do not qualify for welfare benefits under any of the existing programs; conversely, many eligible persons are not poor. The reason for this, of course, is that gross family income is not the only criterion of need in these programs. Also, the official poverty threshold is not necessarily the best definition for the target population for these programs.

- Only 54 percent of poor persons are eligible for Federal cash assistance (AFDC, SSI). 65 percent of poor families are eligible and only 40 percent of poor unrelated individuals. (Table 5.)

Table 5. Target Efficiency of AFDC and SSI: Percent of Poor Families, Unrelated Individuals and Persons Eligible for AFDC and SSI and Percent of Eligibles Who Are Non-Poor, 1974.

	<u>Families</u>	<u>Unrelated Individuals</u>	<u>Persons</u>
Percent of poor who are eligible for AFDC and SSI	65	40	54
Percent of AFDC and SSI eligibles who are non-poor (both programs)	58	30	47
AFDC	46	—	42
SSI	72	30	57

Source: U.S. Department of Health, Education, and Welfare, The Measure of Poverty: Welfare and Poverty Populations, undated, p.23.

- On the other hand, 58 percent of the families eligible for AFDC or SSI are not poor. 1/

1/ The proportion of non-poor families eligible for SSI is significantly higher -- 72 percent -- than the comparable proportion for AFDC -- 46 percent (probably due to the rather high SSI breakeven, about \$7,050 if all income is earned, relative to the poverty threshold for couples with an aged head, about \$3,350).

- Food Stamps benefits, since they are universally available to low-income households, are very efficient in their coverage of the poor -- i.e., there are no gaps. However, only about 65 percent of those eligible actually participate, undoubtedly due in part to the purchase requirement (which for many families exceeds what they would spend on food anyway); relatively low bonus value at income levels near the breakeven level; preference or necessity to use cash for other programs; and reluctance to accept public visibility in use of stamps.

In some cases, benefits are paid to persons with incomes well over the poverty line. Probably nothing tarnishes to image of public assistance programs and irritates taxpayers more than the horror stories of families with high gross income receiving assistance.

- While many cases do exist in which families with incomes in excess of \$10,000 are receiving benefits (See Table 6 for an actual case), the problem is often overstated. The incidence is small and arises mainly in programs that allow liberal deductions, like Food Stamps and housing assistance, or in programs, for which target efficiency has not been a major goal, like the child nutrition programs.

Table 6. AFDC Family of Four with Employed Mother Retains Eligibility with Annual Income of \$13,000 -- Los Angeles County (actual case, 1976)

(Dollars)		
Monthly Earnings		\$1084 (\$13,000 annual)
Less Disregard		30
		<hr/> 1054
Less One-third		351
		<hr/> 703
Taxes		
(Federal, State, FICA, Disability)	227	
Child Care	180	
Transportation	43	
	<hr/> 450	
Less Work-Related Expenses		<hr/> 450
Net Countable Income		\$253
Monthly Payment Standard		
Less Net Countable Income	402	
	<hr/> 253	
Monthly AFDC Grant	\$149	

In addition, the family is eligible for Food Stamps and Medicaid

- Cash assistance to some persons above the poverty line may be desirable for two reasons. First, the poverty thresholds may be unrealistically low. Second, a poverty line cut-off in benefits would constitute a sizeable notch and hence a serious work disincentive to earn past the notch.

The target efficiency of transfer programs has both improved and worsened since the mid-sixties. The proportion of poor families eligible for Federal cash assistance has increased since 1967 (from 53 percent to 65 percent in 1974). On the other hand, there is some evidence that the share of all transfers accruing to the poor, from nearly every income security program, has declined since 1965. In part, this reflects the decline in the number of pre-transfer poor (i.e., a decline in the relative value of the official poverty thresholds), and in part the effort to increase work incentives.

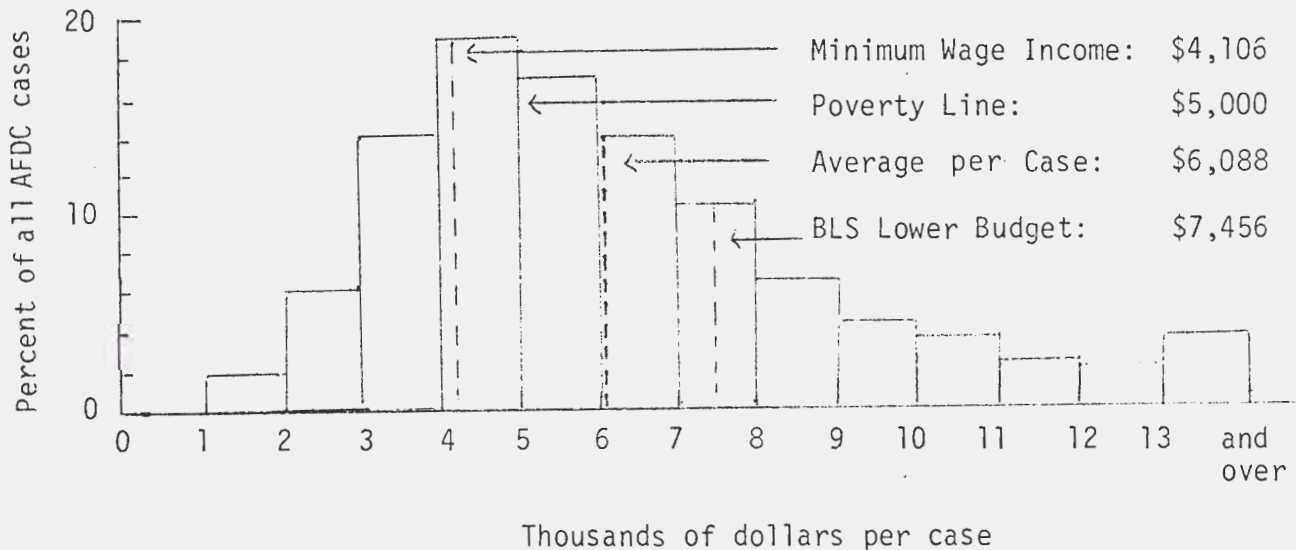
#### Work Incentives and Employability

Income assistance programs discourage work effort by providing an alternative source of support. Total benefits accumulated from the several assistance programs are often quite adequate. In fact, the level of support compares favorably with what many people bring home, after taxes, from full-time work.

- In New York City in 1974, more than a quarter of all AFDC cases had total incomes (all assistance income plus non-welfare income) of more than \$7,000 a year. About 10 percent had incomes exceeding \$10,000 a year (see bar chart next page). Average total family income was relatively close to the BLS lower income budget for most family sizes. (Note that here as in several other instances, criticisms conflict. In this case, the criticism that adequate support levels constitute a work disincentive conflicts with the criticism that many benefit levels are too low based on the adequacy criterion.)



PERCENT DISTRIBUTION OF AFDC CASES BY TOTAL INCOME  
(Welfare and Non-welfare), New York City, 1974



Source: The Rand Corporation, Multiple Welfare Benefits in New York City.

- In 22 States, the annual benefit derived from AFDC plus Food Stamps alone for a family of four with no other income exceeded the amount a wage-earner could earn in a year, working full-time at the minimum wage.
- We have seen that a mother and father and two children in many States will realize a higher total income if the father works half-time at the minimum wage than if he works full-time at that wage.

Income assistance programs discourage increased work effort by reducing benefits as earnings increase. As benefit reductions accumulate across all programs from which a recipient is receiving benefits, the compounded reduction rate can become very high, thus constituting a serious disincentive to increased work effort.

- The cumulative benefit reduction rate for a family receiving AFDC, housing assistance, and food stamps can be as high as 85 percent. That is, for each additional dollar earned, the recipient keeps only 15 cents -- certainly not much of an incentive to increase earnings <sup>1/</sup>.

<sup>1/</sup> Not all recipients face such high marginal tax rates. A recent CBO paper uses the estimate that the tax on an additional dollar of gross earnings is between 52 and 76 cents when the joint effects of the various cash and in-kind programs, including their deductions, are considered.



- We have seen that either the Medicaid notch or the 100 hour notch in AFDC-UF can cost recipients substantial sums of money -- in excess of \$1,000 annually -- if they increase their work effort past the notch.

Welfare benefits are not work-conditioned, and work tests have been largely ineffective. The existing programs do not require welfare recipients to perform public services in exchange for their welfare check. Society expects some of these recipients to work.

Recipients of AFDC-Unemployed Fathers and Food Stamps must register with the public Employment Service, pursue job referrals, and cannot refuse suitable employment if they are to retain assistance eligibility. However, work tests have met only limited success either as an effective placement device or as a deterrent to those seeking assistance who are employable but choose not to work. Judgments differ as to the predominant reason for failure: high unemployment and a shortage of suitable jobs, or lax enforcement.

Efforts to enhance employability and increase self-sufficiency have been only marginally successful. The Work Incentive Program (WIN) was designed to provide employment-related services to AFDC recipients. Originally emphasizing training, work experience, public service jobs and necessary supportive services (like child care), since 1972 the program has increasingly emphasized direct placement services for the job-ready. Most AFDC mothers, except those with children under age 6, are required to participate in WIN.

- Evaluations of WIN generally have concluded that it has had only a marginal impact, if any, on the number of AFDC mothers who work and has produced little, if any, welfare savings.

### Family Stability

Existing income assistance programs have adverse incentives for family stability, since for the most part, they do not provide income support to stable families. Limiting the major family assistance program (AFDC) to single-parent families (with a few exceptions) provides financial incentives for not marrying and for marital separation, and inhibits reconciliation and remarriage.

- The increase in the number of female-headed families in the population is particularly marked in the low-income population. In 1975, two-thirds of all families with children with incomes under \$4,000 had only one parent. While separation is not always for financial reasons alone, there is evidence that economic hardship and insecurity may affect the amount of stress and conflict between parents. AFDC, by offering a greater degree of financial security to one-parent families, can be an additional factor in the decision to separate.

- Receipt of AFDC may influence remarriages. Of all single women heading families with children in 1968, about 12 percent married in the next four years, as compared with only 5 percent of women receiving AFDC.
- AFDC family policy is inconsistent: In all but a few States AFDC is continued if there is a stepfather in the home, but is discontinued if the mother marries the natural father of the children.
- The Food Stamp program is the only major Federal assistance program providing benefits for intact families with children and non-aged childless couples and unrelated individuals.
- SSI and Social Security programs also contain disincentives to marriage.

### Self-Image and Treatment of Recipients

The "welfare" system stigmatizes the poor by putting them through demeaning means tests, giving them benefits in-kind, and subjecting them to public criticism.

- To many, the means test is inherently demeaning since it requires applicants to prove they are poor. Of course, the extent to which a means test may be demeaning is in large measure a function of the nature of the test and the way it is administered. The income and asset limits in most programs require proof of indigence reminiscent of the "pauper's oath".
- In a society that places high value on independence, individual initiative, self-support, and accumulation of material goods, being poor is often equated with failure, by the poor person as well as by the more affluent. This viewpoint persists even though there is more general knowledge of the effects of unemployment and low-wage levels on unskilled workers.
- In-kind benefits, such as food stamps, reflect beliefs that the poor cannot handle money properly, and also make recipient status visible to a critical public every time food is purchased with stamps.
- Recipients are termed disparagingly as "on the rolls" or "on the dole" although many prefer jobs and self-support as evidenced by the high turnover rates (more than 30 percent annually in AFDC).

Negative attitudes toward welfare programs and welfare recipients are reflected in some of the more demeaning features of the existing programs, and sometimes in the attitudes of administrators.

- For example, New York now requires a female applicant for AFDC to provide not only the name of the father of her children but also the names of other men who might be the father.
- An SSI office director in a southern city, in explaining the reason for the high error rate in his office (as quoted in a newspaper article) said that SSI recipients are illiterate and stupid, and too lazy to report changes in their circumstances.



The result is a stigmatizing system that does not encourage a sense of self-esteem among its participants.

### Charity and Intra-Family Transfers

The existing programs treat charitable giving and intra-family transfers inconsistently, often discouraging them.

- In SSI, gifts and private charitable contributions (whether cash or in-kind) are counted as income. The only statutory exception is for institutional care provided by private charitable organizations. If the law is applied strictly, compassionate interests in providing additional help to needy persons are thwarted and recipients are deprived of voluntary assistance for special needs. Charitable contributions to meet specific unmet needs are not usually counted as income in AFDC.
- In AFDC, the income of other members of the household not legally responsible for the children may not be considered available to the AFDC family. In SSI, the benefit level is reduced by one-third if the recipient lives in another person's household, whether or not related, on the assumption that some support is provided by the household head, unless the recipient pays a pro-rata share of household expenses.
- In SSI, adult children are not required to contribute to the support of a parent as an eligibility criterion for the Federal basic benefit (except that the one-third reduction can apply if they share the same household), but States can require support by children if the parent receives a State supplement.
- In the Food Stamp Program, a household is considered to be an economic unit, regardless of relationship or legal responsibility.

### Administrative Efficiency

Our income maintenance system is seriously inefficient in many ways and for many reasons. The individual programs consume large percentages of net cost in administrative expenses (e.g., about 10 percent in AFDC and 15 to 20 percent in Food Stamps). Despite all these resources, there are numerous indications of serious inefficiencies. For example, the error rates in these programs are all very high. Quality control reviews have found errors (overpayments, underpayments, and ineligible cases) in 26 percent of AFDC cases, a slightly higher percentage of Food Stamp households, and 10 percent of SSI cases. While there are fewer firm estimates, there are enough examples of abuse in the other programs, such as unemployment insurance and workmen's compensation, to indicate that there are serious problems of error and abuse in these programs as well.

Some of these errors may reflect the system's lack of responsiveness to the recipient--slowness in processing, imprecision in matching services to recipient needs, poor communication between agency and recipient, etc. Under AFDC almost 50 percent of the case errors have been traced to the administering agency. Increasing the responsiveness of the current system could conceivably deflate two pressure points: Costly error rates, and client frustration fed by a complex structure of rules and regulations.

A final example of the inefficiency of these programs is the lack of effective outreach. While there are many reasons for non-participation, the very low participation rates in Food Stamps and SSI suggest that lack of information, limited accessibility, and the nature of program administration account for a portion of these unclaimed benefits.

### Savings Incentives

Except for the exclusion of \$20 per month from any source in SSI and varying amounts in AFDC in some States, the means-tested transfer programs reduce benefits dollar-for-dollar for all income from savings including private pensions. In addition, accrued savings in the form of assets often preclude eligibility altogether. While these provisions save money and target benefits on those most in need, they also take away the financial benefits from these savings activities for these people. While we have no estimates of the effect of these provisions on total savings, it does not seem to be consistent social policy for our transfer programs to provide financial incentives to earn money but not to save it.

### Coherency and Control

The complexities mentioned above plus the multiple, often overlapping programs and the fragmented responsibility across the various levels of government have resulted in a system, or non-system, which is neither coherent to taxpayers and the Congress nor subject to clear control by Federal, State, or local Government. This not only leads to inconsistent policies but is a major cause of the general frustration with the whole subject of providing basic income support. An example is the recent expansion of non-income tested unemployment compensation. Since the nation had no means to assist two-parent families during the recent recession, UI was expanded to 65 weeks.

### Clarity and Simplicity

That the present system is anything but clear and simple hardly needs documentation. The complexity of the rules and regulations of AFDC are legendary; detailed case manuals can fill an entire bookshelf. This complexity is an important cause of error, makes fraud and abuse more likely, provides caseworkers with arbitrary control over recipients' benefits, and impedes full participation of those eligible for benefits.

As a result, not only are recipients confused regarding what benefits they are eligible for or why, but also the taxpayers have no clear idea of the amount and distribution of basic income support that we as a society are already providing.

### Equitable Financing

The fiscal burden of supporting the current welfare programs is unequally distributed across States and, to some degree, across locations.

- New York City pays for 25 cents of every dollar in welfare benefits, while the city of Boston makes no contribution to each welfare dollar.



To a considerable extent the relative fiscal burden in different States reflects the preferences of each State (expressed in policy and law) in terms of the level and coverage of income assistance support it wishes to provide to needy residents. Differences in fiscal burdens, however, are also influenced by the size of a State's needy population, and to a much lesser extent, by the Federal matching percentage and a State's ability to raise tax revenues.

The result is a distributional pattern to the welfare fiscal burden that is not based on any clear or consistent criteria that equitably reflect both need and ability to pay.

## SPECIFIC CRITIQUES

This section examines the existing income maintenance structure, especially the means-tested components, from the vantage point of the leading reform "approaches." These approaches are not just different means to the same end. The approaches and the major options within these approaches may be distinguished in some instances according to the weight attached to different criteria, and thus the principal ends sought. In those cases where ends are largely similar, approaches diverge because of different assessments of political feasibility and the degree of dissatisfaction with the present programs. In this section, we outline the main features of each approach and criticize the existing system from that viewpoint. We follow with a statement about what criteria the approach weights lightly and what proponents of different reform viewpoints say about each approach.

### Categorical Reduction\*

Basic Approach. Proponents of this approach would not change the basic structure of the existing system. They emphasize improved target efficiency and direct, non-monetary work incentives. They also stress the elimination of fraud and abuse through improved management and audit practices. They would increase target efficiency by placing an upper limit on the income a household could have and still remain eligible for benefits (150 percent of the State welfare needs standard or the poverty level, for example). Able-bodied recipients would be required to work. They often urge work relief programs, under which recipients must work off their grant in public jobs. The savings gained through these measures can be recycled by the States in the form of higher benefits to those who truly need help.

Criticisms of the Existing System. Advocates of the categorical reduction approach assert that the welfare system has lost sight of its central goal. The system now assists people who are capable of supporting themselves, as well as the truly needy. An improved system would limit aid to only the deserving poor and get those who can work off the rolls. Too few AFDC families have income from employment. The work requirements are lax and not strictly enforced. The Work Incentive Program is supposed to train and place welfare recipients in jobs, but, according to Department of Labor statistics, only reaches about 20 percent of program registrants. The work incentives in the system are inadequate and should be increased.

Even when people work, the present system maintains their welfare status with its many disregards and deductions from earnings, e.g., the actual benefit reduction rate is too low. Those with high incomes, as high as \$10,000 or more, can stay on the AFDC program. That is why 18 percent of AFDC benefits and 32 percent of AFDC-UF benefits are paid to families with incomes above the poverty line.

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\*This phrase has been borrowed from Lester M. Salamon, "Where Should We Go? Unraveling the Income Assistance Policy Puzzle," Ford Foundation Welfare Reform Project, (forthcoming.) See also "Welfare Reform," Budget Options for Fiscal Year 1978 (Washington: Congressional Budget Office) pp. 173-189, where this approach is called "incremental Change: Program Tightening."

Some people get benefits from several programs and end up with more income than people who work and pay taxes. Such multiple benefits are inequitable and discourage those who are trying to be self-sufficient. Finally, fraud and abuse are excessive. Management of the system must be tightened.

Problems with this Approach. Two major criticisms of this viewpoint are usually advanced. First, because the focus of this approach is primarily on target efficiency, work incentives, and system control, its proponents place much less emphasis on other important goals. This narrow focus also means that the proposed changes in the system may not even solve the problems they address. For example, if multiple programs cause excessive total benefits in some cases, this problem cannot be solved without a reduction in the number of programs. Because AFDC is a grant-in-aid program, and savings gained through higher benefit reduction rates, getting employables off the roles or cutting fraud and abuse, are in the form of dollars not spent and therefore, cannot be recycled into higher basic benefit levels by either the Federal or State Governments.

Second, this approach obscures the trade-offs between the two goals of target efficiency and monetary work incentives. Targeting benefits on the lowest income individuals by placing an upper limit on income for eligibility determination may create what is called a "notch." If one's income is just below the income cut-off, one could be receiving a welfare benefit. A small increase in earnings to a level just above the cut-off causes the loss of the welfare benefit and a reduction in total family income. More generally, even if benefits are not lost altogether, they may be reduced so much that recipients will have little incentive to work. Advocates of this approach believe that it is both more effective and more appropriate to require welfare recipients to work, rather than to use monetary incentives in the program structure (e.g., low benefit reduction rates) to encourage work.

#### Management Approach

Basic Approach. Proponents of the management approach believe that the coverage and structure of the existing system are basically sound. The first priority should be to operate the present system more efficiently, not to substitute a new system which will just take years to implement and years more to operate efficiently (witness the SSI experience).

Much of the criticism of the existing system results from the tough trade-offs and political compromises that are inevitable in designing any welfare system. Some feel the system is not adequate enough; others that it is too adequate. Some feel that tax rates are too high; others that breakeven levels are too low. Some feel the system provides too little to employables; others too much. Management proponents eschew the controversy surrounding these choices and accept the current system as a reasonable expression of national consensus. They emphasize, however, that the current system is inefficient and lacks clarity and simplicity. Therefore, we should simplify and tighten the administration of what we have in place.



Criticisms of the Existing System. The welfare system is subject to too much error, abuse, and fraud. In AFDC, for example, the quality control program has found that approximately 6 percent of the cases are ineligible, 14 percent are eligible but overpaid and 5 percent are eligible but underpaid. These errors arise both from recipient and administrative mistakes. In dollar terms, these mistakes amount to \$900 million per year, or 9 percent of total transfer payments. The Food Stamp program has similar problems with their non-public assistance caseload. In the latter half of 1975, 19 percent of these cases were paid too much, and 7 percent too little. SSI has also reported high error rates.

Errors occur for a variety of reasons. First, ineffective enforcement activities compound fraud and abuse by recipients. Second, most programs have become so complicated that it is easy for caseworkers to compute benefits incorrectly or for recipients to report their income and resources incorrectly. Caseworkers need to remember numerous regulations and fill out numerous forms. In AFDC, for example, manuals that are issued by the States for caseworkers are generally at least two inches thick and filled with complex regulations. Furthermore, these regulations change often. A county welfare director told the JEC's Subcommittee on Fiscal policy, in testimony in June 1972, that standards and procedures for determining eligibility were changed "almost every month of the year" and that regulations became so complicated that they become "the cause of numerous errors."

Other problems arise because of the numerous programs that comprise the welfare system. For example, although AFDC recipients are almost always eligible for food stamps and the Food Stamp benefit calculation is performed by the AFDC caseworker, this calculation requires the application of a totally different income definition from that used in computing the AFDC benefit. In other words, vesting authority for multiple programs with one administrator saves little administrative time. Better coordination of the definitions that are used in the two programs could save both time and money. With two sets of rules, the potential for error is heightened. Better coordination between programs would also lead to the ability to check for the illegal collection of multiple benefits, a source of some abuse in the system.

Finally, managers of welfare programs fail to reach all persons eligible for the programs. Participation in both SSI and Food Stamps is low among some categories of the eligible population, particularly the aged and (in the case of Food Stamps) those who are not on public assistance.

Problems with this Approach. Management initiatives do not solve all aspects of the welfare problem. The tightening of administrative practices and simplification of the rules and regulations will lead to a better-run system but will not correct any of the other deficiencies that are found in the welfare system. Problems connected with the goals of adequacy, equity, efficiency, and work incentives are, for example, not addressed by this set of proposals. However, the approach is compatible with any of the other reform alternatives and should be pursued if public confidence in the welfare system is to be regained.



### Categorical Expansion \*

Basic Approach. Considerable progress has been made during the last decade in extending coverage and raising the participation rates and benefit levels of the categorical assistance and in-kind programs. Especially important is the Food Stamp Program which extends income assistance to the working poor in two parent families for the first time at uniform levels across the country. Thus, according to advocates of categorical expansion, all that remains to be done is to raise benefit levels some, fill in a few gaps, and manage the existing programs better. To achieve these ends it would be necessary to (1) enact a national minimum benefit level in AFDC above that now paid in low benefit levels States, and (2) expand assistance to the working poor through one or more of the following steps: (a) extend AFDC-UF to all States; (b) allow the States the option to cover intact families in AFDC, even in instances where the father is fully employed; (c) expand the work bonus (EITC); (d) increase the Food Stamp bonus and/or eliminate the purchase requirement; (e) extend the bonus idea to other commodities, e.g., heat and light, Housing Allowances, and (f) expand job creation activities through existing or new programs. In addition, some incremental reform proposals would separate Medicaid eligibility from AFDC and SSI, and extend coverage to all low-income people.

Note that not all proponents of categorical expansion strategies forward packages that would cover the entire low-income population. Some would concentrate only on AFDC reform for single-parent families. Some incremental reform packages would also include initiatives in the social insurance programs such as those discussed later in this paper.

Criticisms of the Existing System. The proponents of a categorical expansion approach (often referred to as incrementalists) have a diverse agenda, a fact which reflects the diverse criticisms of the existing system. Some believe that the predicaments in which single-parent, female-headed families find themselves should entitle them to generous benefits. Two-parent families and others will be able to gain adequate income from employment and Food Stamps. AFDC should be restored to its pre-1962 rationale as a means-tested "insurance" against the father's absence. We should be less concerned about the work effort of AFDC mothers and drop the WIN work test, the "30 and one-third" work incentive disregard, and possibly the deductions for work expenses.

Other incrementalists agree to many of the criticisms advanced by those who favor a complete structural overhaul: the current AFDC system is inequitable across States; the entire system is inequitable across different populations and provides too little to the working poor; there is too much reliance on State and local tax bases; there needs to be more program integration to eliminate undesirable incentives and unnecessary administrative duplication. But, incrementalists adopt the view that we should seek to correct these failings and problems in the system with multiple programs that the public and the Congress will not view as radical departures.

\* See also Salamon from whom the phrase is borrowed; CBO Budget Options; "Food Stamps and Welfare reform," Policy Analyses, Winter 1976, by Richard P. Nathan.

For instance, use of the AFDC structure, now in place could be modified to extend cash assistance to two-parent families. Many taxpayers resent the notion of cash assistance to families who in most respects resemble themselves. Nonetheless they will agree to programs that attempt to provide all Americans with decent housing, an adequate diet, and access to basic medical care. To accommodate this preference, incrementalists emphasize an "in-kind" strategy with appropriate changes in AFDC. Similarly, the public and key political actors appear willing to extend cash assistance to the "non-categorical" poor if that assistance is tied to demonstrated work effort. Hence, we should expand the work bonus (the Earned Income Tax Credit) and public service employment, and we should explore possible private sector wage subsidies to assist the working poor.

Problems With This Approach. Because several, quite different options are contained within this approach, several different problems exist, not all of which apply to each option. Some variations place little emphasis on reducing complexity and establishing greater fiscal and policy control. Others are built around these goals. Some of these approaches attempt to make major improvements in equity through what may appear to be minor changes but which are potentially as controversial as the comprehensive restructuring options discussed below.

The variation which restricts welfare reform to changes in AFDC for single-parent families, combined with a return to very high benefit reduction rates, places little emphasis on society's changing expectations about the desirability of employment for such family heads. This variation would perpetuate large differences in coverage between single-parent and two-parent families with possibly harmful consequences for family stability and formation. An important issue critical to the categorical expansion strategy is whether the grant-in-aid structure of AFDC can be used to implement national objectives such as a minimum benefit and increased coverage of intact families. Can we retain a significant State sharing in costs together with increased Federal specification of benefits and coverage? Alternatively, can we move towards 100 percent Federal funds while retaining State discretion over eligibility and benefit computation rules? An additional issue posed by the expansion strategy concerns the 100 hours notch under the AFDC-UF program. Should this feature be retained under a nationwide mandate of AFDC-UF, or should coverage be extended to all two parent families? Retention of the notch gives little weight to vertical equity and work incentives. On the other hand, extension of coverage brings the proposal very close to the comprehensive reform options.

Other variations of incrementalism raise different issues. For example, a multiple program strategy based on expanding in-kind programs may produce serious work disincentives for multiple program recipients and, in general, raises questions about the degree to which the Executive and Congressional branches could achieve the program integration necessary to avoid this and similar problems. Such programs also place less emphasis on reducing stigma and control over recipients' lives.



The competing views of a job creation strategy and some of the problems associated with job creation options are discussed below in the section on the jobs/cash option. In the context of incremental reform, however, the problem of how to allocate scarce job slots in a closed-end funded program is particularly acute. This is especially serious in those incremental approaches which provide little additional aid to the working poor.

In summary, critics of the incremental approach observe that, if the agenda of categorical expansion is cautious and minimal, serious gaps and inequities in the present system will remain. On the other hand, the more ambitious the agenda of categorical expansion, then the more the approach becomes indistinguishable from totally new Federal entitlement structures (such as those discussed below), both in the ends that are sought and the basic issues of social policy that will be raised. Thus, whatever approach is chosen to achieve more adequate and universal coverage, the same social consensus will have to be achieved through a vigorous public debate.

#### New Federal Entitlement Structures (Universal Coverage)

Basic Approach. Like proponents of categorical expansion, those who favor a complete restructuring of the income maintenance system's treatment of the low-income population differ among themselves in their priorities, the weight they attach to different criteria, and the means they would use to obtain universal coverage. The common characteristic of all programs of this kind is an emphasis on the Federal provision of cash benefits according to national standards. AFDC, at least as a grant in-aid program for single parent families, could cease to exist. The options differ in the extent to which the cash benefits are tied to work programs. At one extreme, there are the universal cash benefits programs, such as the 1974 Income Supplement Plan (ISP) of the HEW Secretary Weinberger, or the Income Security for Americans (ISA) plan of the Griffiths Subcommittee, which contain either a standard work test on the model of the Unemployment Insurance program, or none at all. At the other extreme are proposed programs that guarantee a job or another form of work-conditioned transfer to all those required to work, and provide non-conditioned cash only to those not required to work. In between, there are many gradations. Job programs, such as those providing public service employment, can supplement rather than substitute for cash benefits. Alternatively, triple-track cash programs provide separate cash benefits for the working poor, the able-bodied unemployed, and those not required to work.

Criticisms of the Existing System. With the possible exception of some supporters of the 1972 Senate Committee version of a jobs/cash strategy, those who argue for a complete restructuring of income maintenance for the low-income population voice the following criticisms. (As noted earlier, many adherents of a categorical expansion approach, especially those who favor comprehensive in-kind programs, also make the same criticisms, but they differ on the means to correct the gaps in the current system.)

The existing welfare system is inequitable, it treats families in similar financial circumstances in very different ways because it largely excludes families with both parents present from assistance and because benefit levels vary widely across States. People who work and pay taxes contribute to the welfare benefits of similar families that have higher total income. People who have contributed to Social Security all their working lives find that those who have not receive virtually the same total income from public assistance.

The benefit levels are inadequate and unevenly distributed. The combined value of AFDC and Food Stamps in 1975 was less than 75 percent of the poverty line in 17 States. Yet some families who are eligible for many programs may receive benefits in excess of those that would be available in a more rational system.

The system discourages work effort because of high marginal benefit reduction rates (which can approach or even exceed 100 percent for families participating in several programs and who have tax liability), because of high unemployment rates, and because we have not perfected the techniques for training the disadvantaged.

The system is target inefficient. Numerous and complex deductions and disregards from income enable people with relatively high incomes to continue to receive benefits. The short accountable periods in current programs allow people who have relatively high annual incomes to receive benefits for those months when their income is temporarily low.

The large number of programs and the complex regulations have resulted in a cumbersome system that is difficult to administer efficiently. Error rates are well above acceptable levels; fraud and abuse are widespread.

The system creates incentives for families to split and disincentives for new families to form. It is also demeaning and stigmatizing and does not encourage self-sufficiency.

The system relies too heavily on State and local revenues and not enough on the Federal tax base. The latter more accurately reflects the interdependent nature of the nation's economy and can adjust to swings in the business cycle.

These and other problems in the current system are judged to be so pervasive that they necessitate an entirely new structure. An incremental strategy of reform is doomed to failure. Incrementalists either propose too little, thereby leaving serious inequities and gaps, or they propose too much, thereby raising most all the controversial issues associated with welfare reform without the benefits that a complete restructuring can bring.

Those who advocate a complete overhaul of the income maintenance system generally break down into four camps. Even within a given group, major disagreements exist about such matters as the level of adequacy (target wage and/or basic benefit), the role for the States, the definition of eligible households, the desirability of an asset test, the desirability and stringency of a work test, the relationship between means-testing and social insurance, and the relationship to the tax system. Nonetheless, the following outline of four major options may highlight the most critical differences of opinion.



### Mutually Exclusive Jobs/Cash.\*

Description and Reasons for Option. This view holds that we should abolish the existing AFDC program (and possibly Food Stamps and housing assistance) and either substantially revise existing public service employment programs or abolish them as well. In place of these superseded programs, we should create a new system of a job guarantee for all families with one or more adults expected to work, and non-conditioned cash assistance for families in which there are no adults we expect to work. All adult household members and unrelated individuals would fall into the "expected to work" category unless excused because of age, disability, illness, or custodial responsibility for a pre-school child (i.e., six or under) or disabled relative. Where both parents are present and not otherwise excused, compliance by the "head" could excuse the other spouse. All needy citizens should be offered assistance, but unconditioned cash transfers to those society expects to work has serious adverse effects on the economy, on the taxpayer's willingness to support income maintenance, and on recipients and their children. In addition, many pressing public needs are left unfulfilled, and we can and should put able-bodied, low-income adults to work providing these services. For those we do not expect to work, means-tested cash assistance and/or social insurance payments will be provided. (This discussion assumes that SSI remains intact, though possibly altered.)

Two distinguishable groups have put forward jobs/cash proposals. One school of thought favors this approach at low-wage rates (perhaps below the minimum wage), with no fringe benefits or job security, and in relatively unattractive, low-skill jobs. Back-up public service employment is necessary to encourage vigorous job search in the private sector for better employment opportunities, to inculcate the work ethic and teach non-specific work habits, and to provide a minimal income floor during periods of high private unemployment. Nor should the benefit level in the cash program(s) be too high, lest we discourage voluntary participation in the jobs program even by those we normally do not expect to work.

A second group of jobs/cash proponents recommend relatively high wage, public sector employment with some fringe benefits and in jobs designed to enhance self-esteem. To the extent possible, these jobs should develop skills that allow transition at a decent wage level into private sector non-menial jobs with advancement potential. This recommendation subscribes to the proposition that social and other non-monetary rewards from work are very important in this society for each individual's sense of worth. The only way to truly integrate the disadvantaged into the American mainstream is to provide them employment that they and others regard as meaningful. No job, private or public, should pay less than what a family needs for a good standard of living.

\* For versions of this option see 1972 Senate Finance Committee version of H.R. 1 (92nd Congress); "Public Employment and Wage Subsidies" by Robert I. Lerman, Studies in Public Welfare, Paper No. 19, 93rd Congress, 2nd Session, FY 74; and "Categorical Public Employment Guarantees: A Proposed Solution to the Poverty Problem" by Arnold H. Packer, Studies in Public Welfare, Paper No. 9.

Criticisms of this Option. There are many dilemmas and difficult trade-offs associated with a direct job creation strategy. High wage approaches could potentially disrupt the private low wage labor market. Low wage varieties raise problems of adequacy. Both options may not increase net jobs if they displace other public employees or produce inflationary pressures which result in more restrictive fiscal measures. These difficulties (including potential costs and caseloads) are compounded when a jobs program is expected to be the exclusive means of support to certain kinds of households. In addition, the administrative apparatus needed to determine employability, especially for households whose composition changes frequently, will have to be elaborate and relatively discretionary.

#### Comprehensive Cash Coverage.

Description and Reasons for Option. Since the 1969 Heineman Commission, there have been four fully articulated proposals to cover the low-income population with a system of cash grants.\* Despite the essential similarity of cash grants, these proposals differ on some important dimensions. For example, the Heineman Commission and Income Supplement Program proposals had no program demarcations according to demographic criteria; the FAP and JEC Subcommittee programs had two or more "Categorical" programs which, when added together, covered the low income population. Advocates of this general option emphasize that society, through a variety of programs -- including AFDC, AFDC-UF, SSI, Food Stamps, General Assistance, and UI extensions -- has already created a system of cash and "near-cash" coverage of the low-income population. The remaining important issues center therefore, on how we should structure, not whether there should exist, a comprehensive income floor. Society has already decided that there should be such a floor.

Proponents of a federally financed and specified comprehensive cash program structure argue that the geographic and demographic inequities in the existing array of programs serve no valid national purpose. The lack of system coherency has unanticipated and undesirable consequences for work incentives, savings incentives, family stability and formation. There is unnecessary duplication in the social insurance and means-tested program structures. We rely too heavily on States and local tax bases instead of the Federal tax base. Policy and fiscal control is non-existent because decision-making is too fragmented among levels of government and across Executive agencies and Congressional committees. Job creation strategies have a high per recipient unit cost and therefore, pose a difficult choice between universal coverage with high net income redistribution, or partial coverage and queuing for limited job slots. In contrast, a comprehensive cash system can give everyone some amount of assistance at an acceptable net cost to the taxpaying public.

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\* Recommendations of the President's Commission on Income Maintenance (Heineman Commission) Poverty Amid Plenty (Washington, 1969); Income Security for Americans: Report of the Subcommittee on Fiscal Policy of the Joint Economic Committee; Income Supplement Plan (HEW/ASPE Technical Analysis (Paper No. 11). For a description of the Family Assistance Plan see Nixon's Good Deed, Vincent and Vee Burke (Columbia University Press, 1971).



Criticisms of this Option. Opponents of a comprehensive cash system come essentially in two groups. One group believes that a guaranteed annual income seriously erodes work incentives, creates a "dependency" syndrome, and is basically unfair to the taxpaying public. This group, as already outlined, favors steps to rethink measures already taken toward a guaranteed annual income (e.g., the earnings disregard in AFDC, the AFDC-UF option, and Food Stamps). The second group — the incrementalists — agree with most of the critique levied by proponents of a comprehensive cash system but favor what they view as politically more acceptable means to correct the problems and expand coverage (for example, new in-kind programs). They believe that proponents of comprehensive cash assistance take insufficient account of taxpayers' aversion to giving cash to those who, except for having less income, look just like them. Further, a simplified cash assistance program must either make a large number of people worse-off, or have a very high basic benefit and breakeven with an unacceptably large price tag. A third alternative, which preserves AFDC (at least for the current caseload) on top of a uniform cash assistance program, belies the claims made for such a proposal on grounds of simplicity, equity, and work incentives. Finally some opponents of a comprehensive cash assistance program ask whether such proposals are being put forward to help the low-income population, or whether such proposals are cost-contained strategies to slow down the progress the nation has made towards a more satisfactory distribution of income.

#### Triple-Track Option.

Description and Reasons for Option. A more distinct variant of the comprehensive cash approach is termed "Triple-Track." In this option, those not expected to work would be covered by a means-tested successor to AFDC and SSI; those expected to work but not regularly employed would be covered by a new manpower and temporary income support system; and those who are working but earning insufficient incomes would receive income supplementation. The welfare track would be for single-parent families with pre-school children, the SSI caseload, and other households on a case-by-case determination of unemployability. The manpower track would provide placement and training services, and some PSE jobs. Income support would be provided by regular UI benefits to those eligible and special unemployment assistance (SUAB) benefits for new entrants and re-entrants to the labor force and to regular UI exhaustees. The SUAB benefit would be either a fixed stipend (with a dependents' supplement) or a means-tested benefit that varies by family size. Eligibility for either stipend would be limited to families with incomes below 150 percent of the poverty line. Families in the manpower track would be eligible for Food Stamps and would also be subject to a work test. This combination of services and benefits would be administered by the Department of Labor utilizing the existing State Employment Services (ES) and CETA program. The working poor would be assisted by an earned income tax credit and Food Stamps.

Triple-track advocates argue that over the past several years the welfare system has become burdened by employment, educational and a host of other social problems. Welfare should be returned to its rightful more limited function of assisting those whom society does not expect to support themselves. The remainder of the low income population falls into the working poor and the unemployed who are expected to work.

These groups should be removed from the welfare system, and assisted through the tax system and the employment system. This change would reduce the stigma associated with welfare status and at the same time provide more accepted mechanisms for assisting the unemployed and working poor. The SUAB stipend will be a temporary income support measure while participants await placement or training. Unemployment insurance enjoys broad acceptance and has an administrative apparatus that is closely linked to training and placement activities, more than most welfare agencies.

Problems with this Approach. Although a full scale back-up income support mechanism is proposed, this option places heavy reliance on private sector employment. If placement goals are not met or overall unemployment rises precipitously, more families would be forced to rely on the SUAB benefit. Alternatively, a significant expansion in PSE jobs would be required. Questions already raised under other options concerning the cost and character of these jobs would become important, as would the nature of the work requirement encouraging movement into the private sector. Critics of this approach also argue that the more the triple-track proposal is changed to meet objectives of target efficiency, horizontal equity, work incentives, and program integration, the more the proposal begins to resemble a comprehensive cash with jobs approach. Lastly, the presence of three tracks with different benefit packages and different delivery structures raises the potential for administrative complexity and the likelihood that recipients would 'fall through the cracks'.

#### Comprehensive Cash Coverage with Job Creation.\*

Description and Reasons for Option. A fourth position proposed by those who favor a complete restructuring of the current welfare system argues for a rationalized and comprehensive cash assistance system in combination with job creation activities. It is individuals, not households, that are "employable" or "unemployable." We create awkward administrative procedures, make untenable distinctions, and spend more money on net transfers than necessary to reduce poverty when we segregate households onto separate tracks. Instead, we should have a basic income floor that recognizes the target inefficiency and inadequacy problems associated with using a wage rate to provide subsistence, that accounts for family size differences and the shifting composition of many households, that corrects for accountable period problems, and that makes it easy for individuals to shift from public to private employment. This can be accomplished by having a comprehensive cash assistance system (along the lines of the Heineman Commission recommendations et. al.), combined with a direct job creation program. Income from jobs would dominate the benefit that would otherwise be paid to those adults whom we expect to work. After a reasonable period of search for a job in the private sector, any adult who falls into the "expected to work" category and who cannot find employment would be required to take a public service job. The public service jobs could be full time or, perhaps, part-time if budget considerations limit the available supply.

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\* The 1972 HEW Mega-Plan had a welfare reform plan somewhat along these lines, see Policy Analysis, Spring, 1975.



When the individual finds alternative private sector employment that he or she regards as more attractive, the individual can quit the public service job and shift into the private sector. If income and total household size warrant, the comprehensive cash assistance program would supplement income from the private and public employment in equal measure. Thus, the goals of this are largely the same as those of the jobs/cash option but more emphasis is placed on target efficiency, adequacy by family size, administrative simplicity, and transition to the private sector. Less concern is shown for some employables being eligible for cash assistance.

Two, not always harmonious, reasons usually are advanced for having a job creation component accompany comprehensive cash coverage. One is to give the cash program's work requirement a real deterrent effect (i.e., to encourage a vigorous search for employment in the regular private sector by having a set of relatively low-wage, public sector jobs that recipient adults are required to fill when not regularly employed in the private sector). The second reason is to provide employment in the public sector at a "decent" wage, in activities which the recipient population and the public both view as important and necessary, and in a manner which imparts useful job skills for private sector employment. The conflicts between these two views already have been outlined in the discussion of the jobs/cash option.

Criticisms of this Option. Despite these surface compatibilities of a comprehensive cash coverage option and job creation activities, this approach also has problems. What will be the relative importance placed on "cashing-out" the Federal presence in the existing programs and fiscal relief vis-a-vis the amount of job creation contemplated and at what wage rate? Given an upward limits on the amount of new money to be dedicated to any welfare reform endeavor, those two purposes are competitors for the marginal Federal dollar. How do we reconcile a means-tested cash program with a strong work test (backed by unattractive PSE slots) with the Unemployment Insurance program that has no such sanction? Alternatively, if the job creation program is oriented toward attractive public service jobs that impart job skills, how do we decide who receives those slots, assuming the jobs program is not open-ended? Finally, the approach risks attack from all the various groups who object to comprehensive cash coverage, as well as from conservatives who fear growing public sector employment and liberals who oppose coercive work tests.

#### Social Insurance Initiatives (Non-Means Tested Transfers)

Basic Approach. Social insurance and other transfers that are only partially or indirectly income-conditioned are an important source of income in the society. We should build upon our successes with social insurance and close the poverty gap with programs that do not demean the recipient, that do not raise the issues of work incentives that necessarily accompany direct income conditioning, and that the taxpaying public accepts as legitimate because they participate as well.

Some of these changes would build on existing programs by, for example, expanding Unemployment Insurance to cover entrants, reentrants, and exhaustees; raising minimum benefits in Social Security and Unemployment Insurance; expanding entitlement of Survivor's Insurance to cover the "displaced homemaker"; and expanding OASDI to entitle all aged and disabled persons to a minimum benefit regardless of labor force attachment. Other proposals involve new programs such as a refundable tax credit or a Children's Allowance. These measures could be financed out of general revenues and could be counted by the welfare programs (thus reducing the costs of those programs).

Criticisms of the Existing System. Advocates of this approach emphasize the importance of not means-testing eligibility. They believe that "programs for poor people are poor programs," that income conditioning has already reduced the financial rewards to work more than is desirable, and that the stigma and self-perception problems are intrinsic to all welfare programs. They emphasize the importance of ending the separation of the poor from the rest of society and portraying the benefits more as universal rights rather than specific acts of charity.

Problems With This Approach. Because this approach places less emphasis on target efficiency, it funnels a great deal more money through the public fisc than more directly income conditioned programs thereby raising tax rates for all taxpayers. Faced with a budget constraint, this lack of attention to target efficiency could translate into less ability to provide adequate benefits. While some variations propose alterations in the non-means-tested programs to increase target efficiency, these may rob the programs of the advantages listed above and endanger their more basic purposes.

It should be noted that some of the options under this heading might be combined with other reform strategies, especially the categorical expansion and new Federal entitlements approaches previously outlined. Some of these measures might also accompany a block grant approach to welfare reform. The triple-track option is a specific example of how such combinations are possible.

### Block Grant Approach

Basic Approach. The society has different preferences about assistance for different groups in the low-income population. Where those preferences are agreed upon and national in scope, the block grant approach advocates a social insurance entitlement (such as Social Security), a national in-kind entitlement (such as Food Stamps), or even a small cash demogrant in the Federal income tax). Where opinion is clearly divided about the appropriate national policy, as has been the case for decades over AFDC and more recently over cash coverage of the working poor, the States should be free to experiment with different solutions. Giving greater latitude to State and local preferences may lead to creative solutions to the welfare problem.

Accordingly, welfare (certainly AFDC, possible housing and Food Stamps) should be converted to a closed-end block grant. The formula for distribution among the States would be a function of a State's relative wealth and the size of its needy population. The annual appropriation for the block grant also could vary with the unemployment rate and other indicators of decline in the business cycle.



Criticisms of the Existing System. Most proponents of this viewpoint share the criticisms usually voiced by those who advocate a tightening of eligibility ("categorical reduction") and improved management. The support for pilot testing of the major approaches to welfare reform comes from several perspectives that are united by the belief that we have neither the knowledge nor the consensus to radically restructure the present system. Many proponents of block grant also share the concern of those favoring comprehensive restructuring that the entire system needs greater fiscal and policy control.

Problems With This Approach. This approach gives little emphasis to the degree to which our economy and society have become interdependent and national in scope. It ignores serious geographic and demographic inequities that are visible from a national perspective. Giving freer reign to State and local preferences could serve to exacerbate these problems.

### Conclusion

What conclusions can we draw from all these different and often conflicting criticisms? Are we to conclude, along with the proponents of the management approach, that perhaps the "welfare mess" is not a mess at all but a reflection of the pluralism of our motives and the diversity of our opinions and values? Certainly some of that is true. The present system is better at alleviating poverty in a way that reflects our often conflicting values than we sometimes give it credit for.

Nevertheless, there is ample room for reform. First, some criticisms are so widely shared that they represent a consensus. Second, the existence of disagreement doesn't mean that reform is impossible. It does mean that the debate will be a vigorous one. Given the strong feelings about the inadequacies of the current system, healthy amounts of honesty and clarity will be required of the participants in this debate if the political process is to produce enough agreement and common motivation to make major improvements in the welfare system.

Clearly, some of those improvements are sorely needed and widely desired. AFDC benefit levels in many States are widely recognized as inadequate. Some sort of increased Federal assistance for two-parent families is also a widely shared objective of welfare reform. And most observers want a simpler, more coordinated system.

Beyond these criticisms, disagreement begins. Most critics of the welfare system find the present set of programs inefficient, producing multiple benefits for some and little for others, but the causes and cures of this inefficiency are not widely shared. Some feel a major defect is the provision of transfers instead of jobs to employable recipients. Many persons feel there is "too much welfare." Others feel the lack of universal, reasonably equal coverage is a major defect. Critics disagree as to whether national, State, or local preferences should determine benefit levels. Different degrees of importance are attached to the extent of control over recipients' lives, the provision of financial work incentives, and the reordering of Federal/State roles.

In short, we already have a guaranteed annual income in the United States, and this is not likely to change. Most observers agree, however, that the differences in the extent of (and forms of) that guarantee across demographic groups and across States are unjustifiably large. If there is a common agenda for welfare reform, it is reducing those disparities of coverage and possibly altering its form.

Beyond that, there are as many specific criticisms as there are approaches. In assessing criticisms, just as in assessing approaches, the key ingredients are emphasis and perspective. The fine tuning of our criticisms, however, should not cause us to lose sight of the financial and human costs of the system's deficiencies and of the need for its reform.



## PAPER #5

### OUTLINE LEADING WELFARE REFORM OPTIONS REVISED DRAFT ONE

#### INTRODUCTION

#### ALTERNATIVES

- 1) Relatively modest changes in AFDC, Food Stamps, and other programs.
- 2) Small-scale refundable tax credit (RTC) with relatively minor changes in AFDC and Food Stamps.
- 3) Universal cash coverage of all low-income families with children through a major restructuring of AFDC; Food Stamps without the purchase requirement; and an expanded public sector jobs program. (Based largely on the National Governor's Conference Report.)
- 4) Housing Allowance; Food Stamps without the purchase requirement; some modification in AFDC.
- 5) Categorical jobs program for some; categorical cash program for others:
  - A) Universal Jobs/Cash.
  - B) Jobs for some families/Cash and Food Stamps for families exempt from work test. (Based on 1972 Senate Finance Committee version of H.R. 1.)
- 6) New categorical cash coverage of the low income population through three separate tracks: manpower track, tax reform track, and welfare track.\* (Based largely on Tom Joe's version of this approach.)
- 7) Consolidated cash coverage of the low-income population with a public sector jobs component.

\* Representative Ullman's REACH proposal is a variant of this approach, but it uses existing program structures to a greater extent than most recent versions. It is described in an addendum to Alternative #6.

- 8) Social Security and Disability initiatives to reduce the poverty population.
- 9) Block grant all or some income assistance programs.

## LEADING WELFARE REFORM ALTERNATIVES

### INTRODUCTION

The previous four papers in this series described the nation's income security system, especially its relationship to the low-income population; listed the purposes, criteria, and choices that should be considered in discussing any alterations in that system; provided some summary statistics on the low-income population; and gave a critique of the system according to general criteria and the differing perspectives of several leading welfare reform approaches.

In this paper we describe the leading welfare reform options as gleaned from a review of the proposals in this area over the past fifteen years and consultation with analysts and political figures in the Executive Branch, in Congress, in State and local government and in the social welfare community outside government. We wish to stress, however, that this paper is just a first step. It represents work in progress. It may contain some options for which there is not widespread sympathy, and it may omit some options for which there is support but which have not yet come to our attention. We have tried to be as inclusive as possible, while at the same time attempting to delineate those central policy choices that will have to be made at the Cabinet and Presidential levels.

We have exercised some preliminary filtering in order to make the overall task more manageable. Thus, some options have not been dealt with explicitly in this paper. These include categorical reduction (decreasing income supplementation and retargeting payments to those with no other income), large scale demogrants, and relying solely on improved management of the current system. These perspectives present important and very real criticisms of the existing system, and in all cases contain elements that deserve serious consideration. Later events may dictate that one or more of these options be given greater treatment for Presidential consideration.

The options presented in the main body of this paper fall along a continuum. We begin with relatively minor changes in the AFDC program, then consider more substantial (and, thus, more politically provocative) changes in the AFDC structure, and finally outline the options that would change the fundamental structure of the income maintenance programs.

This paper does not contain two of the essential elements of any final option presentation: Cost and caseload estimates and descriptions of the administrative structures implicit in the options. Policy-makers need these estimates and descriptions to assure themselves that what they propose is realistic within the society's overall resources, and is compatible with their view of the roles and capacities of government.

Each of these two elements, cost and caseloads and administrative implications, will require considerable effort to detail, and we expect to have reliable information on each by mid-April. The cost estimation problem is particularly complex and must be approached carefully. Advocates of a particular approach, in many instances, can alter program parameters when the cost implications of the first version become clear. Thus, the cost estimation process -- to be fair -- must provide time for this iterative process. Once we have reliable cost estimates together with some judgment about the amount and timing of available resources, it should be possible to hone in on desirable and feasible packages.

The following sections develop nine options, two of which contain a number of sub-options. These are not exhaustive descriptions nor do they present an analysis of pros and cons. Rather, our attempt is to provide enough information so that the options can be compared and contrasted, and their principal similarities and differences placed in sharp relief for later versions of this paper. The emphasis is on the intentions and accomplishments of each option, not on the problems or inadequacies.

For each option, we present a general description, a list of specific provisions, a few unresolved issues, the variations that could be accommodated within the general approach, and the options for phased implementation. We have also provided a table of technical characteristics for easy reference and comparison.



## Alternative #1

MODEST CHANGES AND EXPANSIONSGeneral Description

Under this approach we would treat welfare reform as an activity to be accomplished over the next decade through steady, phased changes in existing programs. Such an approach might contain the following steps:

- Enactment of the Agriculture Department's proposed Food Stamp bill (which would standardize the definition of countable income, eliminate the purchase requirement, and provide for a "tax-back" of Food Stamp benefits paid to households with high annual incomes).
- After enactment of the proposed Food Stamp bill, that legislation could be followed next year or the year after with a second bill that would allow cash to be substituted for Food Stamp coupons and to move the Food Stamps program to HEW under SSA jurisdiction.
- Coordination to the maximum extent possible of statutory and regulatory changes in AFDC, SSI, Food Stamps, housing, and possibly even CETA about such matters as income definitions, assets tests and so on. This process would be aided by the placement in SSA of all three major means-tested programs.
- Immediate modification of AFDC in the manner described in the next section. These changes could be followed in succeeding years by more dramatic (and controversial) changes that would move AFDC toward a national entitlement program (perhaps covering fully employed two-parent families similar to the SSI model (See Alternative #3)).
- Steady expansion in Section 8 and other housing programs, and in CETA and other employment programs in order to provide more adequate benefits to the non-AFDC caseload. Relatively modest changes in Unemployment Insurance are also possible to cushion the low-income, non-AFDC caseload.

Immediate Changes in AFDC

In general, these changes would expand coverage, decrease the divergence among states rule for determining eligibility and benefit levels, improve administration and alter the Federal share of program costs. State flexibility in setting eligibility and benefit levels would be maintained; however, need standards would be determined by a uniform methodology. Federal cost increases would be lower than under more comprehensive approaches to welfare reform. Current personnel and organizational structures would remain intact as would the Federal/State system of sharing costs and administrative responsibility, thereby avoiding the risks associated with major changes.

Implementation could be complete within the first year.

#### Specific Description of AFDC Changes

- Mandate nationally an AFDC-Unemployed Parent program and make it fully federally financed. Encourage States to implement emergency assistance programs by raising the matching rate to the regular AFDC level.
- Require States to base need standards on a somewhat standardized market basket methodology, but with the actual market basket and prices determined at the local level. Over time, the standard would be automatically adjusted for changes in the cost-of-living. States would retain discretion to pay whatever proportion of the need standard they wish. Standardize the asset test.
- Initiate a number of management improvement initiatives: For example, quality control system with positive monetary rewards for error reduction; State/local participation in Federal rule-making; 90 percent Federal matching for automatic data processing acquisitions; improved access to welfare offices; and regular recipient reporting of income and family composition.
- Establish a common administrative structure for AFDC and Food Stamps.

#### Unresolved Issues

- Extent to which the income definitions and family definitions can be standardized across these programs without major legislative changes.

#### Easy Variants

- Increasing the amounts and/or the coverage of the Earned Income Tax Credit.

#### Phase-In

- As is clear from the above discussion, one of the principal characteristics of this alternative is that any or all parts could be implemented quickly.

MODEST CHANGES AND EXPANSIONS

FILING UNIT: Nuclear families deprived of parental support due to death, incapacity, absence or unemployment of a parent.

ELIGIBILITY: Current law with needs standard in each State based on uniform cost-related standards across all States, but at local prices. Limit eligibility to families with gross incomes not exceeding 150 percent of need standard. Mandate AFDC-UF (now AFDC-UP).

ACCOUNTING: Monthly retrospective with monthly recipient reporting of income and family composition.

ACCOUNTABLE PERIOD: One month.

ASSET TEST: Liberalize and standardize by setting minimum and maximum level.

COUNTABLE INCOME: Standardize the work-related expense deduction within each State either as a flat dollar amount or a fixed percentage of earned income as determined by each State.

BENEFIT STRUCTURE: Current law. States continue to pay a percentage of the need standard at their discretion.

WORK REQUIREMENT: Current law; target WIN on employables who need extra help.

FINANCING: Full Federal financing of AFDC-UP. Change matching formula in AFDC to reflect either the absolute number of poor in each State, or the proportion of the population who are poor. Increase matching for emergency assistance to regular AFDC level. Pay 90 percent of automatic data processing acquisitions.

FISCAL RELIEF: As implied in the discussion of financing. Dollar estimates not available.

ADMINISTRATION: In addition to changes implied above, reform quality control.

RELATION TO OTHER PROGRAMS: Establish a common administrative structure for AFDC and Food Stamps.



## Alternative #2

### SMALL-SCALE REFUNDABLE TAX CREDIT

#### General Description

This alternative contemplates: (a) adding a small-scale refundable personal tax credit to the Federal income tax system (the President has already indicated that he will propose to replace the personal exemption with a non-refundable personal credit); (b) complementary changes in AFDC that would give fiscal relief to many States because of the new refundable tax credit; (c) complementary changes in Food Stamps, AFDC, and SSI that would simplify administration across programs. The changes in AFDC, SSI, and Food Stamps do not involve any major restructuring of Federal-State relations or administrative structures.

A tax credit reduces directly one's tax liability, while exemptions reduce taxable income. The latter are, therefore, more valuable to higher income taxpayers (i.e., those with higher tax rates). Under a refundable tax credit, direct payments are made to units with a credit in excess of its tax liability.

#### Specific Characteristics

##### Small-scale refundable tax credit

- Convert the personal exemption in the Federal income tax into a personal credit. (The now extant \$35 per person\* personal credit would be folded into the larger credit.) The President has already proposed this step. The amount of the personal credit could range from \$200 to \$300.
- Make the personal tax credit "refundable", i.e., when tax liability is less than the sum of the family's credits, the family is entitled to the excess credit as a transfer. For a very low income family of four, this would mean a transfer anywhere from \$800 to \$1200 per annum depending on the amount of the credit chosen. In cases where an individual is claimed as a dependent on another return, he could not claim the credit as a refund on his own return.
- Because taxable income contains so many potential exclusions and deductions, it would be desirable to allow the credit as a "refund" only when the unit uses the standard deduction. It also may be desirable to require that adjusted gross income be augmented (for example, by disallowing accelerated depreciation, net capital losses, and the municipal bond interest exclusion) before the excess credit is calculated.
- Individuals who are aged or blind would receive the credit only as an offset against tax liability. SSI may be regarded as a more generous version of a refundable tax credit already in place.

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\* The existing personal credit is either \$35 per person or 2 percent of Adjusted Gross Income not to exceed \$9000. Thus the credit cannot exceed \$180.



- IRS and Treasury would be required to disburse the credit as a refund on a quarterly basis to units that could show a reasonable likelihood that they will be eligible on an annual basis. Reconciliation would occur during the normal filing season each year.

#### AFDC and Other Programs

- The AFDC program would count refundable tax credit disbursements dollar-for-dollar. This effectively achieves a federally financed minimum in AFDC with corresponding fiscal relief for the States (and the HEW budget as well). A similar interaction would take place in the calculation of Food Stamp benefits (with a savings in the Agriculture budget). As discussed below, a variation of this proposal would limit the fiscal relief to only high benefit States.
- In order to achieve the offset from the refundable tax credit, the AFDC and Food Stamp Programs would have to be changed: (a) to require AFDC recipients to file quarterly for the refundable tax credit; and (b) to have a quarterly or three month accountable period for purposes of AFDC and Food Stamp benefit computation. These changes are required so that tax credit payments do not cause AFDC and Food Stamp recipients to lose eligibility when the payment occurs and in order to allow those programs to fully recoup the tax credit offset.
- Because the accountable period would have to be changed in AFDC and Food Stamps, it would be desirable and probably necessary to change the SSI accountable period to correspond, and to move all three programs to a common income definition and benefit adjustment system. Congruence in asset tests would also be desirable but is not necessary.

#### Unresolved Issues

- While this approach would minimize current demographic and geographic disparities, the remaining inequities would still be substantial. Proponents of this approach argue, however, that a start will have been made toward a universal and more rational income assistance system.
- The current policy conflicts between Federal and State Governments in AFDC would remain largely untouched.
- Would AFDC recipients be allowed to keep some portion of the refundable tax credit (in the form of a disregard)?

Easy Variance

- The interaction between the small-scale refundable tax credit on the one hand, and AFDC and Food Stamps on the other could be manipulated so as to produce a national standard of adequacy. The States could be required to ignore some amount of the tax credit when determining AFDC grants so that the grant plus the disregarded portion of the credit equaled the desired national minimum benefit.

Phase-In

- This option could be accomplished in two steps. First, a non-refundable personal credit would replace the personal exemption. This is already being discussed. The second step would be to make the credit refundable. Twelve to 18 months should be allowed for IRS and the States to implement the necessary administrative changes in tax law operations and in AFDC and Food Stamp Administration.

SMALL-SCALE REFUNDABLE TAX CREDIT (Table 1)

<u>FILING UNIT:</u>	Tax unit (mostly nuclear families) with some exceptions for double filing cases (e.g., dependent children with income).
<u>ELIGIBILITY:</u>	Excess of credit(s) over liability (as computed on AGI or modified AGI minus the standard deduction) paid as a "refund", <u>not</u> payable to SSI recipients.
<u>ACCOUNTING SYSTEM:</u>	Calendar quarters, prospective, with an annual reconciliation in normal filing season.
<u>ACCOUNTABLE PERIODS:</u>	Annual: Calendar year.
<u>COUNTABLE INCOME:</u>	Adjusted gross income or modified adjusted gross income (i.e., some exclusions and deductions disallowed for purposes of the refund).
<u>ASSET TEST:</u>	Not applicable, none.
<u>BENEFIT STRUCTURE:</u>	Flat amount per individual, probably double credit for aged or blind individuals. Could range from \$200 to \$300 per personal credit.
<u>WORK REQUIREMENT:</u>	Not applicable.
<u>FINANCING:</u>	Federal general revenues.
<u>FISCAL RELIEF:</u>	The States (as well as the HEW and Agriculture budget) would receive fiscal relief because of the addition to countable income in AFDC and Food Stamps of the credit refunds.
<u>ADMINISTRATION:</u>	Internal Revenue Service.
<u>RELATIONSHIP TO OTHER PROGRAMS:</u>	See next table.

SMALL-SCALE REFUNDABLE TAX CREDIT (Table 2)  
(Changes in AFDC, Food Stamps, and Possibly SSI)

<u>FILING UNIT:</u>	Current law in all three programs.
<u>ELIGIBILITY:</u>	No fundamental changes from current law.
<u>ACCOUNTING SYSTEM:</u>	Monthly retrospective with monthly recipient reporting of income and family composition.
<u>ACCOUNTABLE PERIOD:</u>	Three month (assume carry forward system to lengthen accountable period).
<u>COUNTABLE INCOME:</u>	Standardize recognition of work expenses and other exclusions and deduction from income across three major means-tested programs.
<u>ASSET TEST:</u>	No fundamental changes from current law.
<u>BENEFIT STRUCTURE:</u>	No fundamental changes from current law.
<u>WORK REQUIREMENT:</u>	No fundamental changes from current law.
<u>FINANCING:</u>	No fundamental changes from current law.
<u>FISCAL RELIEF:</u>	See previous Table.
<u>ADMINISTRATION:</u>	Continued State administration of AFDC and Food Stamps, SSA administration of SSI.
<u>RELATION TO OTHER PROGRAMS:</u>	AFDC and Food Stamps will count the refundable tax credit. In the case of AFDC, a national minimum pass-through might be required.



Alternative #3UNIVERSAL CASH COVERAGE OF FAMILIES WITH CHILDREN THROUGH AFDCGeneral Description

This section considers a welfare reform plan which constitutes major reform of the present system, despite the fact that it largely uses existing administrative structures. It goes a long way toward producing a single national system while retaining some State discretion. It provides substantial fiscal relief. Thus its short run complexion belies its long run implications which differ only slightly from those of some of the more comprehensive approaches.

This proposal transforms AFDC significantly and modifies Food Stamps to a lesser degree. The AFDC-UF program is mandated on all States, and the 100-hour work limit is eliminated. In effect, AFDC becomes a program offering universal cash coverage to children and their parents, with no distinction in benefit levels or eligibility between one-and two-parent families, a Federal benefit floor with State supplementation encouraged, a compulsory work requirement, and State administration. The basic administrative structure of AFDC is retained. Essentially this proposal is quite similar to the 1969 Family Assistance Plan. We have based this proposal largely on the National Governor's Conference Welfare Reform Report with relatively minor modifications about those specifics in some places. With respect to Food Stamps we have followed the Agriculture Department's most recent proposals.

Specific Descriptions

The reformed AFDC program would have the following features:

- The minimum benefit, which would be entirely federally financed, is set at \$200 a month for a family of four. With Food Stamps, 4-person families with children receive a guaranteed basic benefit of about \$3,750 annually (assuming no deductions in the Food Stamp Program).
- Except as constrained by the minimum, States determine benefit levels.
- The Federal financial share of the grant is set at 100 percent for the first \$200, 90 percent for the next one hundred dollars, 50 percent for the next one hundred dollars, and nothing thereafter.
- Earnings are taxed at 60 percent after a monthly disregard of \$30. Other income is taxed at 100 percent after a monthly disregard of \$20. The benefit structure for a family of four is equivalent (in most cases) to a negative income tax with a basic guarantee including Food Stamps of at least \$3750 (\$4040 if the new Food Stamp Program has a standard deduction of \$100 per month) and a 66 percent combined benefit reduction rate until approximately \$4400 and 24 percent thereafter (these percentages assume a 20 percent marginal work expenses deduction in Food Stamps against wage and salary income). Eligibility would cease at an income of \$8800. The program should have a one month retrospective accountable period.

- All employable recipients would be required to work or participate in a work/training and public service employment program. Refusal to accept a job paying the minimum wage would cause the assistance to be discontinued.

### Unresolved Issues

Among the most important unresolved issues are:

- Integration with Medicaid. Since eligibility for AFDC-UF carries automatic eligibility for Medicaid in most States, this could be an important budget item.
- Treatment of day care. Requiring work or training for AFDC mothers inevitably raises this issue which is also potentially costly.
- Integration with Food Stamps. The current filing unit for AFDC is the nuclear family. The filing unit for Food Stamps is the household. The choice of filing unit can have a substantial effect on program cost and caseloads. This issue is especially important because a "cash-out" of Food Stamps is recommended (at State option) for cash assistance units.

### Easy Variants

- To select a slightly higher nationally mandated AFDC minimum benefit. One option is to set it at three-quarters of the poverty line (about \$275/month for a family of four).
- To use a different Federal cost-sharing formula. One option is to pay 100 percent of the nationally mandated minimum and 25 percent of any higher levels selected by the States.
- AFDC-UF could be mandated for all States, but without extending assistance to families where both parents are present and the father is working over 100 hours.
- The AFDC earnings disregard could be increased and the benefit reduction rate increased. One option that has been suggested is a \$100 monthly earnings disregard and a 70 percent benefit reduction rate.

### Phase-in

- Mandating of the national minimums could come at any time. The minimum could be raised in several steps.
- The changes in AFDC-UF could come in the following sequence:
  - Nationally mandate the program as is.
  - Drop 100 hour rule.

- The work or training requirement would have to be phased in sequentially, in any event, so as to be efficient. A list of priorities could be set.

INTEGRATED CASH COVERAGE WITH CHILDREN

FILING UNIT: Nuclear Family

ELIGIBILITY: Universal eligibility for income-eligible families with children. Nationally uniform, minimum eligibility standards to be specified.

ACCOUNTING SYSTEM: Not specified, but would be nationally uniform.

ACCOUNTABLE PERIOD: Not specified, but would be nationally uniform.

RECONCILIATION: Not required.

ASSET TEST: Not specified, but would be nationally uniform.

COUNTABLE INCOME: Sixty percent of earnings after \$30/month disregard. (Could be 70 percent with \$100 disregard). One hundred percent on the other income after monthly disregard of \$20. Treatment of day care: to be resolved.

BENEFIT STRUCTURE: State-determined with \$200 month minimum for a family of four. Variations by family size unspecified.

WORK INCENTIVE: Marginal tax rate: 60 percent in AFDC; AFDC plus Food Stamps 66 percent. All recipients must work (some demographic and cyclical exceptions) or participate in "Work Stimulation and Training Program."

<u>FINANCING:</u>	<u>Three Tier</u>	<u>Federal Participating Rate</u>
	Minimum Grant - \$200	100%
	\$200 - \$300	90%
	\$300 - \$400	50%
	\$400	0%

Details of determining Federal share of program expenditures are not specified.

FISCAL RELIEF: A very high percentage of existing State and local AFDC costs would be replaced with Federal dollars.

ADMINISTRATION: State administration including those States where financing is 100 percent Federal.

RELATION TO OTHER PROGRAMS: Retain SSI. Eliminate purchase requirement for Food Stamps and provide State option to cash out.

BUDGETARY COST: One estimate is an additional \$10 billion for AFDC, \$3.6 billion for jobs program, and an unspecified amount for day care and Medicaid.



Alternative #4IN-KIND OPTIONGeneral Description

This alternative would have the following elements: (a) enactment of a Housing Allowance program to replace most current housing assistance programs; (b) alteration of the Food Stamp program along lines already proposed by the Department of Agriculture; (c) reversal of the "sequencing" between in-kind and cash programs so that AFDC counts Housing Allowance and Food Stamp benefits (currently the in-kind programs count AFDC benefits in determining eligibility); (d) appropriate adjustments in AFDC and SSI benefit levels to reflect the reversal in sequencing. (SSI recipients could elect between participating in Housing Allowance and Food Stamps when they are resident in larger households participating in those two programs, or being categorically ineligible for a Housing Allowance and Food Stamps when living separately. In the latter instance, SSI recipients would receive their total benefits in cash.)

Specific CharacteristicsHousing Allowance

- This new program would replace new starts in the existing housing assistance programs. The programs would generally follow the Food Stamp Program in most all particulars such as the definition of income, assets tests, and so on.
- The guarantee in the Housing Allowance program could be between \$1500 per annum (family of four) and \$2100.
- The reduction rate in the Housing Allowance program could be either 25 or 30 percent. There would be no purchase requirement such as now exists in Food Stamps.
- In both the Housing Allowance program and the revised Food Stamp program, the accountable period would be lengthened to either three or six months in order to contain annual costs and caseloads and to provide for greater target efficiency. In addition, the accounting system in the two programs would be shifted to monthly retrospective reporting and benefit adjustment in order to assure greater accuracy and targeting of benefits. These changes will result in less responsiveness to sudden drops in income.
- Recipients would be required to live in standard housing with limits on permissible fair market rents.
- Benefits could be paid in cash, in a check sent directly to the landlord, or in Housing Allowance coupons.

### Food Stamps

- Food Stamps would be generally restructured along the lines already proposed by the Department of Agriculture. In particular the purchase requirement would be eliminated, and aspects of the benefit computation standardized.
- As noted, the benefit reporting and adjustment system, as well as the accountable period, in Food Stamps would be changed.

### AFDC and SSI

- AFDC and SSI benefit levels would be adjusted upwards to pass-through the effect of reversing the present sequencing between cash assistance and Food Stamps.
- AFDC would count Housing Allowance and Food Stamp payments dollar-for-dollar. This achieves an "in-kind" national minimum for the AFDC caseload, and reduces AFDC to a cash supplement. The States obtain considerable fiscal relief. HEW expenditures would also fall, but Agriculture and HUD expenditures would rise.
- State AFDC payments could either be matched at lower rates than presently to reflect the new national minimum, or Federal matching in AFDC could be completely eliminated except for a "hold harmless" arrangement. In either event, Federal control over AFDC eligibility and benefit computation rules could be eventually phased-out entirely as the in-kind national minimum grew.

### Administration

- This alternative assumes administration by the existing State welfare agencies of the new Housing Allowance program and Food Stamp Program under contractual agreement with HUD and Agriculture respectively. AFDC would continue to be operated by the State welfare agencies as reasonably distinct State entitlement programs under HEW general supervision. SSI would continue to be run as a national cash entitlement program by SSA.
- This option does not require explicit alterations in the AFDC reporting and benefit adjustment system. It may be expected, however, that the States would voluntarily alter those systems in light of the requirements imposed by their administration of the Housing Allowance and Food Stamp Programs.

### Unresolved Issues

- The option does not address the issues of medical care coverage, job creation, and relationship to other (social insurance) transfer programs that some other alternatives do. However, it could be modified to include components that would resolve those issues if that were desired.

- This option presumes a high degree of cooperation among several Executive agencies and congressional committees to achieve the desired results. The politics of how this might be managed have yet to be fully explicated.

### Easy Variants

- More Federal specification of AFDC program characteristics could accompany and parallel the specifications for the Housing Allowance and Food Stamp Programs. Whether this is done or not will depend on how much it is decided to remove the Federal financial presence from AFDC in light of a national "in-kind" minimum.

### Phase-in

- Some of the Food Stamp Program changes can be achieved relatively soon as a first step.
- The Housing Allowance and other Food Stamp changes could be implemented within eighteen to 24 months after congressional enactment.

HOUSING ALLOWANCE(and FOOD STAMPS)

FILING UNIT: Same as Food Stamp current law, i.e., broad household definition.

ELIGIBILITY: Housing Allowance guarantee minus (probably) 25 percent of income equals payment. Open to all families, couples and singles who meet the income, assets, and work tests.

ACCOUNTING SYSTEM: Monthly retrospective reporting and benefit adjustment (same for Food Stamps).

ACCOUNTABLE PERIOD: Previous three months (or six months) using carry forward procedure.

COUNTABLE INCOME: Same as proposed by Agriculture for Food Stamps, i.e., gross income minus 20 percent of wage and salary income for work expenses and minus an initial disregard of (say) \$100 per month.

ASSET TEST: Same as Food Stamps current law.

BENEFIT STRUCTURE: Not specified, probably would follow Food Stamp model. Guarantee (family of four) would be anywhere from \$1500 to \$2100.

WORK REQUIREMENT: Same as Food Stamps current law.

FINANCING: Federal general revenues.

FISCAL RELIEF: The States (as well as the HEW budget) would receive fiscal relief because of the reversal in sequencing between in-kind benefits and AFDC. The exact amount would depend on whether there would be continued Federal participation in AFDC expenditures (other than a "hold harmless").

ADMINISTRATION: State welfare agencies under contractual arrangements with HUD and Agriculture. State and local housing authorities would enforce any standard housing and fair market rent restrictions. State welfare agencies would continue to operate AFDC; SSA would continue to run SSI.

RELATION TO OTHER PROGRAMS: New starts in existing housing assistance programs would be terminated; AFDC would reverse its sequencing with Food Stamps and housing benefits (after an adjustment in AFDC benefit levels); SSI benefits would generally not be affected.



## Alternative #5-A

### UNIVERSAL JOBS/CASH

#### General Description

This approach would provide universal coverage to all low-income families, couples, and individuals whose total household income falls below the eligibility cut-off. A job (probably public sector) would be provided to family units and individuals with a member expected to work; cash assistance would be guaranteed to units with no member expected to work. The approach attempts to provide adequate support to those unable to work, while at the same time avoiding the creation of any work disincentives for those expected to work. This approach also attempts to respond to the desires of taxpayers that recipients of income assistance work for wages whenever possible. Further, the recipient labor provides increased output in the public sector. This version of Alternative #5 is based on discussions with the Department of Labor.

#### Specific Characteristics

- One job would be guaranteed to every nuclear family and individual with income (not counting the earnings from the guaranteed job) at less than 200 percent of the poverty level and that contains an adult who is expected to work.
- The earnings guaranteed by the job would be related to the structure and size of the family, ranging from 50 percent of median family income for a family with children for 25 percent for an individual.
- Earnings from the guaranteed job would not be reduced for other income (including earnings) in the household. (A participant would, however, be allowed to vary the number of hours or weeks worked on the PSE job in order to avoid exceeding the income limit in those cases where there is other income in the household.)
- Cash assistance would be provided to families in which there is no individual expected to work and to single individuals not expected to work. The basic cash benefit would vary by family size and for a family of four would range anywhere from 25 percent to 50 percent of median family income.
- Cash program recipients, if they chose, would be provided a guaranteed job but, in such cases, would be dropped from the cash program. If cash assistance recipients should have any earnings from private employment, cash assistance would be reduced 70 cents for every dollar of earnings; other income would reduce assistance dollar for dollar.
- Cash and job programs would be federally financed, with local supervision of job slots.

Unresolved Issues

- There is little experience to guide creation of a large number of job slots. It may be difficult to achieve the large number of jobs required.
- What will be the nature of the work performed by the public sector employees? Will some of the guaranteed jobs be provided through public subsidy of private sector slots, and, if so, what kind of jobs?
- If there is to be one job per household, which parent gets that job and what training and job opportunities are provided for the other parent?
- Under what conditions could an employee be fired? Could such employees be included in collective bargaining arrangements?
- Is it expected that the SSI program would be left unchanged?
- Would Food Stamps remain as a supplement to other income or would the program be eliminated?
- The range of potential definitions of who is expected to work and who is not has not been fully explicated. For example, is the head of a single parent family with children considered to be already providing society with useful work?

Easy Variants

- A wage subsidy or expanded earned income tax credit related to family size could be added to provide assistance to employed persons and to encourage regular employment.
- Some State role could continue by providing cash coverage through AFDC instead of a Federal cash assistance program for all "unemployables"; however, this would raise the issue of coverage for persons not covered (e.g., temporarily disabled).
- A surtax could be levied on PSE earnings based on other income and family size.

Phase-In

- The guaranteed job portion of the proposal would be phased in by beginning with families with children and gradually expanding to all employables. Cash assistance could be provided to the other employable units in the interim.
- The cash assistance program for the unemployables could be phased in beginning with appropriate alterations in the AFDC program and gradually adding the rest of the population not expected to work.

- A surtax could be levied on PSE earnings based on other income and family size.

UNIVERSAL JOBS/CASH

- I. JOBS PROGRAM: Job guarantee for all units with a member expected to work.
- FILING UNIT: Nuclear family only parents with children under 18 in a unit; other related or unrelated household members and persons living alone would be in separate units.
- COVERAGE: Categorical, one job per unit to head (or other member expected to work) in units with a member expected to work, could also choose the job.
- EXPECTED TO WORK: Exempt if over 65, under 18, disabled, or a care-taker for children under 6 or a disabled adult.
- ASSET TEST: Federal standards similar to Food Stamp test, included assets not to exceed \$1,500.
- INCOME TEST: Eligible if income is less than 200 percent of the poverty line.
- COUNTABLE INCOME: The accounting system would be prospective and the accountable period one year. Prior earnings of the public employment participant would not count. Earnings of other unit members would count. SSI and UI would not count. There would be no disregards for work or child care expenses.
- BENEFIT STRUCTURE: Nationally determined, one guarantee linked to median family income and varied by family structure.
- |                              |   |
|------------------------------|---|
| Parents with children:       | 1/2 median family income (\$7200 in 76) |
| Single-parent with children: | 3/8 median for half-time work or        |
|                              | 1/2 median for full-time work           |
| Childless couple:            | 3/8 median                              |
| Single individual:           | 1/4 median                              |
- SANCTION: Units with a member expected to work who refuses the guarantee would be entitled to 75 percent of the cash program assistance level.
- FINANCING: Federal, including wage payments, administrative costs, and 15 percent overhead for equipment and supervision.
- ADMINISTRATION: Federal rules, State administration, and local supervision of job projects.



RELATION TO OTHER  
PROGRAMS:

For units with a member expected to work, replace AFDC, GA, and Food Stamps with job entitlement; for units with no member expected to work, replace AFDC, GA and Food Stamps with a universal cash program; for aged and disabled retain SSI and Food Stamps (or replace the combination with a cash program).

II. CASH PROGRAM:

For units with no member expected to work, except aged and disabled (SSI) units, provide national cash assistance through a national program.

FILING UNIT:

Same as for job program.

COVERAGE:

Categorical, units with no persons expected to work and units not aged or disabled covered by SSI.

EXPECTED TO WORK:

All but those persons exempt under the job program.

ASSET TEST:

Same as for job program.

INCOME TEST:

Eligibility limits for applicants and recipients at the same income level, with benefits reduced by 70 percent of earned income and 100 percent of unearned income.

COUNTABLE INCOME:

All income and earnings would be countable.

BENEFIT STRUCTURE:

Nationally determined, guarantee varies with family size. One possible schedule would be:

1 person	\$1800
2 persons	\$2500
3 persons	\$3100
4 persons	\$3600

Eligibles could opt for a guaranteed job in the job program.

SANCTION:

Not applicable.

FINANCING:

Federal.

ADMINISTRATION:

Federal rules, State administration.

RELATION TO OTHER  
PROGRAMS:

Same as described for job program.

Alternative Options for Universal Jobs/Cash Programs:

1. Low Wage Jobs/Cash option; job guarantee at \$4,000 and cash at \$2,800.
2. Earned income tax credit on regular earnings (two levels): with low wage 5 percent per family member on maximum of \$4,000 earnings and phase down at same rate, with high wage 15 percent per member on maximum of \$5,000 earnings and phase down at same rate.
3. Cash program earnings treatment option; disregard first \$100 per month of earned income and tax remainder at 100 percent.

## Alternative #5-B

JOBS/CASH COVERAGE FOR PARENTS WITH CHILDRENGeneral Description

This approach would provide coverage to all low-income families with children. Many of the specific provisions are based on the 1972 Senate Finance Committee report on H.R.1. A job would be guaranteed to nuclear families with children and with a member expected to work; cash assistance would be provided through AFDC to families with no member expected to work; an earnings supplement would be provided to those employed in the regular labor market. This approach aims to provide support to families with children and a strong incentive to work in the regular labor market. It would be responsive to preferences that recipients work for wages, and output would be produced by recipient labor in the guaranteed job slots.

Specific Characteristics

- One job paying less than the minimum wage would be guaranteed to every needy family with children and a member expected to work.
- As an alternative to the guaranteed job, one member would be eligible for a wage subsidy on a regular labor market job paying less than the legal minimum. The Earned Income Tax Credit would be retained and apply only to regular employment.
- Eligibility for the wage subsidy and guaranteed job would be based on family income being below 125 percent of the poverty line threshold. Public employment earnings would not be reduced for earnings in the regular labor market or for unearned income. The income limit would apply to participants as well as applicants.
- Cash assistance through the current AFDC system would be provided to families with children and no member expected to work.
- State minimums would be established and Federal block grant funding provided for AFDC.

Unresolved Issues

- The relationship between Federal block grants and the State benefit structure (and total State program costs) needs to be specified.
- Whether Food Stamps are eliminated, retained only for the AFDC and SSI population, or retained for everyone is not specified.

Easy Variants

- Guaranteed job coverage at the low wage rate could be expanded to additional categories (e.g., childless couples and individuals).
- Food Stamps could be replaced with a cash supplement (compare REACH described as an addendum to #6 below).

Phase In

- Jobs could be provided first for two-parent family heads and later for heads of single-parent families.



- I. JOB PROGRAM: Job guarantee and wage subsidy for units with a parent expected to work and with children.
- FILING UNIT: Nuclear family, only parents and children under 18 in a unit, other related and unrelated persons in a household or living alone excluded.
- COVERAGE: Categorical, for units with children under 18 and a member expected to work, one job per unit to head (or other member expected to work); wage subsidy for head working on private job below legal minimum; earned income credit on private earnings.
- EXPECTED TO WORK: Exempt if over 65, attending school full-time, disabled, remote from a job or caretaker for children under 6 or for a disabled member.
- ASSET TEST: \$2500 plus excluded items over which States have discretion.
- INCOME TEST: Families would be ineligible for guaranteed job or subsidy if total income exceeded 125 percent of the poverty line or unearned income exceeds \$3,450.
- COUNTABLE INCOME: All income would count, but free child care would be provided; State supplements would disregard some range (e.g., \$3000 to \$4600) of earnings; earned income tax credit would apply only to private earnings.
- BENEFIT STRUCTURE: Entitlement to public job that pays 75 percent of the minimum wage for 32 hours per week; State supplements that disregard earnings permitted; wage subsidy in private jobs equal to 75 percent of the difference between three-quarters of the legal minimum and the minimum itself.
- SANCTION: Units with member expected to work who refuses the job are entitled only to State assistance, and State assistance must be calculated assuming recipient is employed in the guaranteed job.
- FINANCING: Federal for earnings on guaranteed jobs but no assistance for supervision or equipment; Federal financing of wage subsidy and earned income tax credit.

ADMINISTRATION:

Federal rules, State administration, and local supervision of job projects.

RELATION TO  
OTHER PROGRAMS:

For units with parents expected to work with children, 1) AFDC and Food Stamps would be eliminated, 2) the earned income tax credit retained, 3) child care for school age children provided free; for parents with children and no member expected to work, AFDC and Food Stamps would be retained; for the aged and disabled, SSI and Food Stamps would be retained; for other units, present coverage (Food Stamps) would be retained with GA remaining as a State option.

II. CASH PROGRAM:

Assistance for parents with children and with no member expected to work.

FILING UNIT:

Same as for job program.

COVERAGE:

Categorical, parents with children and no member expected to work.

EXPECTED TO  
WORK:

All but persons exempt under job programs.

ASSET TEST:

Same as for job program.

INCOME TEST:

Eligibility limit for applicants would equal the benefit level; eligibility limit for recipients would be higher by the amount of the disregard.

BENEFIT  
STRUCTURE:

State minimum (\$1800 for a two-person family, \$2300 for three persons, and \$2800 for four persons); States with benefit levels above the minimum would not be permitted to lower payments below the minimums, States with benefits below minimums would not be permitted to reduce levels; State supplements would be permitted.

COUNTABLE  
INCOME:

All income reduces benefits dollar for dollar, with a flat \$25 monthly disregard.

SANCTION:

Not applicable.

FINANCING:

Federal block grants would replace matching formulas.

ADMINISTRATION:

Federal requirements, some State discretion.

RELATION TOOTHER PROGRAMS:

Same as for job program.

Alternative #6TRIPLE-TRACKGeneral Description

The Triple-Track proposal starts from the assumption that the present low income population falls into three definable groups: (1) those households which contain an employed adult but have insufficient earnings to meet basic consumption requirements (the "working poor"); (2) those households in which an adult is expected to work but has no job; and (3) those households in which no adult is expected to work outside the home.

Each of these categories requires a different assistance strategy. The first group requires income supplementation; the second requires employment assistance and a job; and the third requires a basic cash grant. The needs of these groups would be met through a three-track strategy that utilizes, but substantially restructures, existing institutional mechanisms for delivering benefits to recipients. In common with other categorical cash and jobs approaches, Triple-Track assumes that it is feasible to separate those who are expected to work from those who are not, and proposes an extensive employment and training strategy that includes the provision of PSE jobs. It does not, however, guarantee a PSE job.

Triple-Track is based on the view that the welfare system has become overly burdened by unemployment, educational and other social problems. The presence of these problems has contributed to the stigma attached to welfare status. Welfare should be returned to a more limited income support role for families and individuals who cannot and are not expected to provide for themselves. The unemployed and the working poor should be assisted by employment related programs under the Department of Labor and through the tax system. This refocusing of policy and program responsibility will reduce the stigma associated with low income status, in part because the unemployed and working poor will be assisted by programs which are accorded greater public approval (e.g., UI).

Specific CharacteristicsTrack #1: Tax Reform for the Working Poor

The working poor track is for those households with an employed member but insufficient income to meet basic consumption needs. These households would be assisted by income supplementation through the Earned Income Tax Credit and Food Stamps.

- Eligibility would extend to all households in which at least one adult member is working.
- Benefits would be provided through an expansion of the Earned Income Tax Credit (EITC) to include childless couples and unrelated individuals. The EITC would vary by family size. For example, a family of four might earn a 40 percent credit on earnings up to



\$4000. The credit would then decline by 40 cents for each additional dollar of earnings until phase-out at \$8000.

- All households would be eligible for Food Stamps.
- SSI would be retained for the elderly, blind and disabled.

### Track #2: The Manpower Track

The Manpower Track is for those households in which there is an unemployed adult who is expected to work. These households would become the responsibility of the Department of Labor and would be eligible for a variety of services and benefits provided through the State Employment Service (ES) and the Comprehensive Employment and Training Act (CETA) program. These services and benefits would include:

1. Placement assistance for a private sector job.
2. Training or vocational education services.
3. Placement in a PSE job.
4. Maintenance assistance for those in training or awaiting placement in a private sector or PSE job. Maintenance assistance could take two forms.
  - a. Regular UI benefits for those who are eligible.
  - b. A Special Unemployment Assistance Benefit (SUAB) for those who are new entrants or reentrants to the labor force and those not covered by regular UI (including those who have exhausted their benefits). The SUAB benefit would either be a fixed stipend with a dependents supplement or a means-tested benefit which is varied for family size. Eligibility for the SUAB benefit would be limited to one person per household.
  - c. All manpower track households would be eligible for Food Stamps.

Eligibility for the manpower track would be limited to households with incomes below 150 percent of the poverty line. Thus, a secondary worker would be permitted to have some earnings. Recipients holding a PSE job might also be eligible for the earned income tax credit.

The Manpower Track would contain a work requirement. Under one version, the recipient could refuse any job for the first 30 days. After this period, refusal would result in removal from the program and loss of benefits, and dependents only could revert to the welfare track.

Track #3: The Welfare Track

The Welfare Track would be for those households in which no adult is expected to work outside the home. Eligible households would be assisted through a federally financed cash program with a national minimum payment level (possibly set at 75 percent of the poverty line). Benefits would vary by household size and perhaps by regional cost-of-living differences. Social and other rehabilitation services would be available to eligible recipients to enable them to move to another track when, and if, appropriate. The present SSI program for the aged, blind and disabled would be retained. SSI eligibles would be removed from the household filing unit.

- Eligibility would extend to persons aged 65 and over and their dependents; disabled individuals and their dependents; persons who for health reasons have been out of the labor force for several months or more; and single parent families with a child under six.
- There would be no work requirement.
- Unearned income would be taxed at 100 percent. A small amount of earnings might be exempted (e.g., \$30 per month).

Unresolved Issues

- In most versions of Triple-Track, the household is the basic unit of eligibility. The employment status of the primary earner determines which track the household enters. In some cases, a household might find it advantageous to split up such that some members could qualify for the welfare-track while others could simultaneously qualify for either the manpower or working poor track. The extent to which this should be permitted or encouraged is still at issue. Some proponents urge a family rather than a household filing unit. While this would reduce the incentives for households to split up, a smaller filing unit would tend to increase overall costs.
- In general, Triple-Track advocates want households that work to be better off than those that don't. Thus, the working poor should, in general, be better off than those receiving either a Manpower Track stipend or a PSE job. Some households with a member working at a low wage rate might be better off in the Manpower Track, however. A SUAB stipend that varies by family size could also result in a higher income than the same family could receive from a PSE job. While most Triple-Track advocates will accept some movement between tracks, especially among the low wage working poor, the exact shape of the incentive structure across all three tracks needs final specification.

- In common with other cash/jobs strategies, Triple-Track relies heavily on the success of private sector placement efforts (with assistance from the EITC).
- The capability of the State Employment Service (ES) in combination with CETA and additional PSE jobs to meet the employment needs of Manpower Track eligibles is not clear. Thus, the Manpower Track has the potential to become either expensive or coercive, if eligibles are required to accept "undesirable" private sector jobs.
- Medical care coverage has not yet been addressed.
- The presence of three tracks, several benefit packages, and different delivery mechanisms offers the potential for administrative complexity and increases the likelihood that some recipients would "fall between the cracks."

#### Easy Variants

- Most Triple-Track advocates propose changes in the UI program that would standardize benefits at some floor (perhaps 67 percent of a worker's prior average weekly wage up to 75 percent of the State average wage) and limit eligibility to 26 weeks. Some advocates would extend benefits to 52 weeks.
- Several variants of the EITC for the working poor are available that vary the earnings base, the credit percentage, and the phase-out point. Additional variants to assist the working poor would cash out Food Stamps or raise the minimum wage.
- The REACH proposal put forth by Representative Ullman has many features in common with the Triple-Track approach. An addendum to this section describes REACH.

#### Phase In

- An expansion and increase in the EITC would require additional IRS capacity and probably some mechanism for monthly or quarterly disbursement of funds.
- The Manpower Track delivery mechanism will require policy clarification and increased capacity. New policy will be required to clarify ES and CETA roles.
- A payment mechanism would need to be established through UI or ES depending upon which variant is adopted.
- Private sector placement and PSE functions would need to be coordinated with the payment mechanism.

- The Welfare Track would require new legislation to establish Federal payment standards.
- A Three-Track data network would need to be established to avoid absent or duplicated payments and should probably also include a quality control system.
- A phase-in schedule should be developed to reassign recipients in stages to new programs.



ADDENDUMREACHGeneral Description

REACH is directed at families with dependent children. The existing AFDC program (with UF mandated nationwide) is used as the mechanism to means-test entry into the following two tracks:

- For "unemployables" (families with children where the head is deemed, by the Secretary of Labor, to be unemployable): these families would receive an AFDC grant as normally computed and Food Stamps in the form of coupons.
- For "employables" (families with children where the head is deemed by the Secretary of Labor to be employable, but who is unemployed according to AFDC criteria):
  - a training allowance at 40 percent of the State average weekly wage
  - public service employment as a last resort when private sector placement is impossible
  - subsidized day care
  - Food Stamps (perhaps in cash)

In addition, REACH would provide:

- For those who are employed but have low-incomes:
  - a \$60 per month work expense allowance which is reduced by 50 cents for every dollar above \$60 below the poverty line
  - Food Stamps in cash (i.e., a low guarantee, low tax rate negative income tax)
  - subsidized day care

It is unclear whether wage income from a last resort PSE job is supplemented by the work expense allowance and/or cashed-out Food Stamps.

- Tax credits to private employers to hire REACH participants, so that PSE does not become overly burdened.

Comments

- The REACH proposal was developed five years ago. It is likely that it would be revised in light of current knowledge and recent experiences with such mechanisms as the Earned Income Tax Credit.

- The present emphasis of REACH is on families with dependent children. Childless couples and unrelated individuals are not eligible for training or PSE and are assisted only by Food Stamps and employment stimulants. SSI could be retained for the aged, blind and disabled, and an EITC might be employed to further assist childless couples and unrelated individuals.

TRIPLE-TRACK (Table 1)Working Poor Track 1/

<u>FILING UNIT:</u>	Household: All persons who live together and meet maintenance needs in common. Boarders and lodgers excluded.
<u>ELIGIBILITY:</u>	All households with an employed primary earner.
<u>BENEFIT STRUCTURE:</u>	EITC which rises to maximum of 25 percent of \$4,000 earnings. A family of four receives a 20 percent EIC at \$4,000 which phases out at \$8,000. Food Stamps.
<u>TREATMENT OF INCOME:</u>	Food Stamps treats income as under current law.
<u>ACCOUNTABLE PERIOD:</u>	Quarterly or monthly.
<u>ASSET TEST:</u>	Applicable only to Food Stamps.
<u>WORK REQUIREMENT:</u>	None.
<u>FINANCING:</u>	EITC is 100 percent Federal.
<u>ADMINISTRATION:</u>	EITC administered by IRS; Food Stamps transferred to HEW for supervision.

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1/ The specification presented in these three tables are for a specific Triple-Track option based largely on material provided by Mr. Tom Joe.

TRIPLE-TRACK (Table II)Manpower Track

<u>FILING UNIT:</u>	As under working poor track.
<u>ELIGIBILITY:</u>	All households containing an employable adult who is unemployed and no member working full-time. Secondary workers would be permitted some earnings, but household income below 150 percent of poverty line.
<u>BENEFIT STRUCTURE:</u>	<p>Regular UI for those eligible with benefits set at 67 percent of recipients average weekly wage up to 75 percent of State average wage. Twenty-six week limit. SUAB for all other. Benefit varied by family size:</p> <p>-- one person family \$2,200  -- four person family \$4,200</p> <p>PSE job: Annual income from PSE between \$4,200 and \$4,600. All households eligible for Food Stamps.</p>
<u>TREATMENT OF INCOME:</u>	<p>Regular UI benefits are not means-tested.</p> <p>SUAB benefits tax unearned income at 100 percent. Earned income taxed at a 45 percent rate up to breakeven at about \$9,500 for a family of four.</p> <p>Food Stamps as under current law (counts UI, SUAB and PSE).</p>
<u>ACCOUNTABLE PERIOD:</u>	Quarterly or monthly
<u>ASSET TEST:</u>	Similar to Food Stamps.
<u>WORK REQUIREMENT:</u>	All primary earners from eligible households required to report for placement or accept referral to training. For 30 days recipient can refuse a <u>bona fide</u> job offer. After this period, recipient must accept <u>bona fide</u> job offer or placement in PSE job or face removal from the program. Expelled household can revert to welfare track, but a refusing primary earner is removed from filing unit.
<u>FINANCING :</u>	100 percent Federal financing of all but Regular UI.
<u>ADMINISTRATION:</u>	Department of Labor through UI, ES and CETA. Food Stamps Administered by HEW.



TRIPLE-TRACK (Table III)Welfare Track

<u>FILING UNIT:</u>	As under working poor track.
<u>ELIGIBILITY:</u>	Persons aged 65 and over, disabled and blind persons, single parent families with children under six, persons out of the labor force for six months or more because of health reasons.
<u>BENEFIT STRUCTURE:</u>	Varied by family size and set at approximately 75 percent of poverty line.  -- One person unit \$2,200 -- Four person unit \$4,200  SSI retained for aged, blind and disabled
<u>TREATMENT OF INCOME:</u>	Unearned income taxed at 100 percent. Small amount of earned income exempted (up to \$50 per month).
<u>ACCOUNTABLE PERIOD:</u>	Quarterly or monthly.
<u>ASSET TEST:</u>	Similar to Food Stamps.
<u>WORK REQUIREMENT:</u>	None.
<u>FINANCING:</u>	100 percent Federal financing of benefit payments. Administrative costs shared with the States.
<u>ADMINISTRATION:</u>	State administration under Federal supervision (HEW); retain Federal SSI administration by SSA.

## Alternative #7

### CONSOLIDATED CASH PROGRAM (with a Jobs Component)

#### General Description

This welfare reform approach includes the following elements:

- Replacement of Food Stamps, SSI, Veterans Pensions, the Federal presence in AFDC, possibly new starts in housing programs for the low-income population, Unemployment Insurance extensions beyond twenty-six weeks, Indian General Assistance, and most State programs of General Assistance with a consolidated cash assistance program for all low-income people. This program might be administered by HEW directly (through SSA or a new agency), the States under contract from HEW and/or Treasury, or by the Treasury Department (through IRS or a new agency).
- Appropriate modifications in Unemployment Insurance for the twenty-six weeks duration in order to cover and support more adequately the low-income population.
- Close-ended Federal participation (i.e., block grant) in an Emergency Assistance program designed and operated by the States. The States would also be encouraged to maintain their AFDC programs through a "hold harmless" arrangement until such time as the basic Federal cash assistance program grew to a level sufficient to render AFDC less relevant. Most Federal restrictions on AFDC would be lifted.
- A Federally-funded public service jobs program large enough to cover most adults who are expected to work and who are part of households receiving cash assistance.
- The minimum in OASDI could be eliminated to offset partially the costs associated with the new cash assistance program's more generous treatment of social insurance transfers (relative to present treatment in SSI and AFDC).

#### Specific Characteristics

##### Consolidated Cash Program

- The guarantee (or basic benefit) structure of this program would dominate present SSI plus Food Stamps levels, the Federal share of the largest amount paid in AFDC plus Food Stamps (in all but

possibly one or two States), Veterans Pensions, and General Assistance plus Food Stamps. The basic benefit would be at approximately seventy-five percent of the poverty level for most families. (Because of differences in benefit computation and household eligibility rules, the new program would not replace present programs' benefits in all situations.)

- Except as noted below, eligibility would be solely a function of income and family size. Benefits would be reduced fifty cents for every dollar of earnings (except from PSE) and other private source income, sixty cents for public sector employment income, and seventy-five cents for social insurance income. (If Veterans Pensions are not replaced, the reduction rate on income from those programs would be one hundred percent.) The accountable period for determining income would be relatively long (say, six months).
- Eligible units would be defined as all relatives sharing the same household (with some special rules), except when separate economic status could be shown by a sub-family or individual. The benefit structure would be designed to reflect economies of scale while minimizing incentives for households to separate into smaller units.
- The assets test would have an initial exclusion (say, \$40,000 of net worth in a house plus the first \$1,000 of financial assets) and a 10 percent imputation of income from net assets above that amount.
- All adults who are not excused from the work test in households receiving assistance from the new program would be required to comply with the appropriate State work test in Unemployment Insurance: (a) for such time as that adult may be receiving Unemployment Insurance payments, or (b) for such time as he or she would have received Unemployment Insurance benefits but for a lack of coverage or a disqualification. At the end of such period, adults in households who are expected to work and who are not employed in the private sector (half-time or more) will be required to participate in the public sector jobs program described below. Refusal to comply with the work test would remove the adult from the household's guarantee and, in some instances, remove other members of the household as well.

#### Jobs Program

- Part-time public sector employment would be offered to and, in some instances, required of adults in households receiving assistance under the means-tested cash program. These jobs would vary between twenty to thirty-two hours a week depending on the other commitments of the participating adult (for example, after school care by a mother with school age children). In all instances, some time (at least one day) would be provided for job search in the private sector.



- Depending on cost constraints, relatively few adults might be required to participate in the jobs program (for example, no single-parent family heads with children under fourteen), or relatively many could be required to participate. Also depending on cost constraints, the wage rate could be relatively low (at least minimum wage) or relatively high. Note that the higher the pool of participants and the higher the wage rate, the lower the disbursements from the cash program. Adults who are totally excused from the work test, or adults who are not required to take the job until having exhausted UI benefits (or an equivalent period of time) will be allowed to volunteer for a public service job. Thus, the jobs program could be open-ended in its funding.
- The reduction rate against the household's cash benefit for earnings from the public sector jobs program will be 60 percent (instead of the normal 50 percent) in order to provide an incentive to switch to private sector employment.

#### Administration

- The cash program would probably be administered directly by an agency of the Federal Government. The most likely possibility would be a new agency in Treasury or HEW, although the new apparatus could report to an existing official if that were desired (e.g., the Commissioner of Social Security or the IRS Commissioner).
- The public sector jobs program would be administered by the Department of Labor, probably by means of contractual arrangements with other Federal agencies (e.g., Interior, ACTION), State and local governments, and possibly non-profit agencies.

#### Unresolved Issues

- Exact specification of the benefit structure, the household definition, the assets test, the income definition (especially the accountable period) must await more cost and caseload analysis.
- A special issue of considerable importance is whether the definition of income should allow some recognition of the work expenses of salaried individuals and, if so, how: A standardized treatment for all expenses? Should only some households be eligible for the adjustment of income?
- The modifications in the Unemployment Insurance program for more adequate and complete coverage of the low-income population have not been specified.
- Relationship to medical care coverage has not been specified.
- Will day care be directly provided or will some account be taken of day care costs in computing benefits?



- The exact nature of the AFDC "hold harmless" arrangement and the Emergency Assistance program remains to be specified. More study must be given to the impact on existing SSI, Veterans Pension, and other recipients of direct Federal programs.
- The definition of those adults "expected to work" in this program will require more analysis for costs and caseloads, as well as examination of the ability of government to create the requisite jobs and the impact on the private labor market.

#### Easy Variants

- Not all programs need be folded into the consolidated cash program. For example, SSI and Veterans Pensions could be left intact. Given the same target level of adequacy, for the rest of the caseload, this decision, however, would raise total program costs. The same may be said for a decision to retain UI extension beyond twenty-six weeks. A similar choice exists regarding new starts under the housing assistance programs for the low-income population.
- The stringency of the work test, especially the requirement of participation in the public service jobs components, could be made to vary with the overall unemployment rate. This variation will be required if the decision is made to close-ended fund the jobs component.
- Existing State welfare agencies could be used to administer the new cash programs under contract from the Federal Government through Treasury or HEW.

#### Phase-In

- The new consolidated cash program can be brought into existence by using existing State welfare agencies to administer it for an interim period. One year to one and one-half years would be needed to allow the States to adjust to running the new program.
- During the phase-in period, compatible changes can be introduced into existing programs. For example, given some lead time (six months), most State AFDC programs could be adjusted to accommodate a national minimum, a mandate of the UF-option, and national standards. This might conflict, however, with other policy objectives.

CONSOLIDATED CASH PROGRAM

<u>FILING UNIT:</u>	Household (all relatives related by blood, marriage, or adoption living under the same roof; some special rules)
<u>ELIGIBILITY:</u>	Universal eligibility on the basis of household size, income, assets, and compliance with the work test.
<u>ACCOUNTING SYSTEM:</u>	Monthly retrospective reporting and benefit adjustment.
<u>ACCOUNTABLE PERIOD:</u>	Six (possibly twelve) months using the carry forward system.
<u>ASSETS TEST:</u>	All assets at net worth. Broad initial exclusion. Ten percent imputation to income from net worth of assets beyond the exclusion.
<u>BENEFIT STRUCTURE:</u>	Basic benefit would be \$3,300 for a married couple, a single parent and first child, or a head of household and adult, dependent relative. All other adults would add \$1,100 to the basic benefit, except that aged, blind, or disabled individuals filing separately would receive \$2,200. All other children would add \$550.
<u>INCOME DEFINITION AND TREATMENT:</u>	All inclusive definition of income with probably a standard adjustment to income against wage and salary income for certain households; special rules for the self-employed. 50 percent reduction rate on most earnings and other private source income, 60 percent rate on earnings from PSE jobs, 75 percent rate on social insurance income.
<u>FINANCING:</u>	Federal general revenues.
<u>FISCAL RELIEF:</u>	A high percentage of existing State and local welfare expenditures would be replaced by the universal Federal program.
<u>ADMINISTRATION:</u>	Federal agency or States under contract from the Federal Government.
<u>RELATIONSHIP TO OTHER PROGRAMS:</u>	Would replace Food Stamps, SSI, Federal presence in AFDC (except for a "hold harmless"), Veterans Pensions, Indian General Assistance, Unemployment Insurance extensions

beyond twenty-six weeks, possibly new starts in housing assistance programs for the low-income population, and possibly the OASDI minimum.

Assumes "hold harmless" for the State AFDC programs, adjustments for existing caseloads if necessary, and Emergency Assistance.

Jobs program for low-income families would replace or utilize some existing DOL programs.

#### BUDGETARY

#### COST:

Not yet specified. With respect to the cash portion, costs are probably at a minimum of five billion dollars for fiscal relief and new coverage.

## Alternative #8

### SOCIAL SECURITY INITIATIVES AND DISABILITY

#### General Description

Many have long advocated the use of social insurance to reduce, and eventually eliminate, poverty. These programs already prevent many families and individuals from falling into poverty status (although, it is reasonable to assume, that the means-tested program would be larger absent social insurance) and enjoy greater public support than welfare. Means-tested welfare, as such, could be reduced further by selected expansions in the social insurance programs. Possible steps are:

- Expand the use of the unemployment insurance mechanism (one possible set of measures along these lines was discussed in alternative #6).
- Replace the personal exemption in the tax system with a refundable tax credit or, alternatively, a children's allowance which is linked to the tax system (one variant of this proposal was discussed in Alternative #2).
- Revise Social Security (OASI) along the lines of a two-tier demogrant/earnings related benefit structure such as discussed below.
- Reduce some of the work history requirements for Disability Insurance and ease the employment test in that program for older workers; introduce Federal standards into Workmen's Compensation that would raise replacement rates, require cost-of living adjustments, extend duration of benefit payments, and broaden both covered occupations and the definition of work-related injuries; introduce a national temporary disability insurance program into the Social Security System.

#### Two-Tier Social Security (OASI) System

The proposal would convert Old Age-Survivors Insurance (OASI) into a two-tier system of demogrants and wage-related benefits.

- The bottom, demogrant, tier would be set eventually at a level sufficient to guarantee at least a poverty level income.
- The second, earnings-related, tier would be calculated according to contributions and a rate of return that reflected the society's historical real growth rate.



### Unresolved Issues

- This approach to welfare reform rests on the belief that explicit income-conditioning (on total household income and assets) lays bare the difficult trade-offs in the design of any transfer program and tends to segregate the recipient population into a distinct class that the tax paying public resents and the welfare bureaucracy treats badly. It is unclear whether this critique is endemic to all income-conditioned programs that might be designed. Further, it is just as arguable that social discontent is on the rise with respect to social insurance transfers as well.
- The details of the proposed two-tier OASI program needs more analysis and specification.
- The details of the proposed changes in the various programs that would cover various forms of disability--particularly how the several programs would relate one to another--also requires more analysis and specification.

### Easy Variants

- Both the OASI and the disability components of this approach can be varied along several dimensions in light of cost constraints and coverage priorities. Most specifics in the write-up have been taken from a paper commissioned from Alvin Schorr, a leading spokesman of the social insurance viewpoint.

### Phase-In

- Movement toward the two-tier benefit system can be made by averaging cost-of-living increases into flat amounts added to all benefits.
- Raise the minimum benefit to SSI levels and make the maximum benefit level a more explicit ratio of the minimum.
- Reduce the actuarial reduction from 20 percent to 10 percent.

## Alternative #9

### Block Grant Approach

#### General Description

Certain aspects of current income maintenance policy reflect some national preferences in adequacy and eligibility, e.g., OASDI, SSI, and Food Stamps. Other aspects -- e.g., UI, AFDC, and housing assistance -- involve Federal contributions to programs that are based on State or local preferences concerning adequacy and eligibility. Some have advocated that major portions of income assistance should be remitted more fully to State responsibility and discretion. Possible components of a block-grant strategy might be:

- Closer integration of OASDI and SSI (along the lines discussed earlier) for the aged and disabled populations.
- Expansion of Survivor's Insurance to cover more AFDC-type families (see above).
- Conversion of AFDC, housing assistance, and perhaps other programs into a block grant program of assistance to State Governments to design and operate their own income assistance programs for the non-SSI population.
- Conversion of Food Stamps into a small-scale cash demogrant (perhaps linked to the tax system); or the incorporation of Food Stamps into the block grant).

The thrust of this approach is to identify national preferences in income distribution and to translate those preferences into social insurance and demogrant mechanisms, and otherwise engage in redistribution through the States on the basis of their relative wealth and share of the low-income population. (These specifics are based on testimony by Roger Freeman of the Hoover Institution in 1972 before the Senate Finance Committee).

#### Specific Description of a Possible Block Grant Approach

Once the programs for inclusion in the block grant were identified, the Federal percentage of aggregate expenditures in those programs could be determined on a State by State basis, and the present reality in overall Federal matching rates could be converted into a close-ended formula grant (e.g., in FY 1976 State "X" spent \$100 million in the programs included in the block grant, 70 percent of which was Federal money). Over the next several years, the Federal percentage could be dropped 1 or 2 percent each year, while Federal tax levies simultaneously are being lowered. At some point, a situation would be reached in which only the lowest income States would be receiving Federal grants.

Unresolved Issues

- This approach rests on the belief that "welfare" should be largely a function of local preferences in charity. It is not obvious why this should be the case for programs oriented to the low-income population, but not the case for those which focus on the middle-income population (such as Social Security).
- This approach has serious flaws from the viewpoint of counter-cyclical effects and encouraging States to "export" poor people to neighboring jurisdictions. Some argue that changes could be made to correct somewhat for these phenomena, but it is not clear how that might be done without recreating the present system.

Easy Variants

- The variants of the tier approach are as many as the programs that might be included and the revenue-sharing formulas that can be devised.
- The particular variant chosen for exemplative description was structured to illustrate the phase-in possibilities.

## APPENDIX A

### Program Descriptions

The following information is provided where relevant on each major social insurance and income assistance program.

- Expected transfers during FY 1977.
- The number of beneficiaries.
- The government unit responsible for financing and administration.
- Basic Eligibility Requirements - such as age, disability, previous work history, and dependency.
- Income Test - the extent to which income, including earnings and transfers from other programs, are considered in determining eligibility.
- Form of benefit - cash or in-kind.
- Basic Benefit Level - benefits provided to recipients with no other income.
- Benefit Reduction Rate - reduction in benefits in response to an additional dollar of income.
- Breakeven Level - highest income that a recipient unit may have and still qualify for a benefit.
- Accountable Period - length of time over which income is considered in determining eligibility and payment amounts.



Workmen's Compensation

Benefits under Workmen's Compensation will reach an estimated \$6.7 billion\* in FY 1977. Every State has enacted workmen's compensation laws to provide financial protection against loss of income, medical expenses, or death due to injuries on the job. The first law was enacted in 1908 -- a law passed by Congress covering Federal civil service employees. Similar laws were enacted subsequently by the States. Programs generally are administered by State departments of labor or independent workmen's compensation boards. Most State programs are financed entirely by employers. Coverage of employees varies from State to State, but coverage is provided for about 85 percent of employees nationwide.

Generally, for an individual (or his family) to qualify for benefits he must have sustained an injury or been killed in performing his duties, but the injuries must not have arisen due to the employee's gross negligence willful misconduct, or intoxication. Some States cover certain occupational diseases. Benefits are payable to a disabled worker, and in the case of death, to the worker's survivors. Some States pay dependent's benefits. There are no income or assets tests under most laws. Benefits are paid in the form of periodic cash payments, lump-sum payments, medical services to an injured worker, and death and funeral benefits for worker's survivors. Most States also provide rehabilitation services or benefits. Benefit levels for temporary disability are about two thirds of a worker's weekly wage in most States. Death and permanent disability benefits vary widely among States.

\* Workmen's compensation payments were \$5.6 billion in 1975. Payments have been increasing at about 15 percent per year.

### Veterans Compensation Programs

In FY 1977 an estimated \$5.7 billion will be paid to an estimated 3.5 million beneficiaries (2.3 million veterans and 1.2 million dependents and survivors). Service connected disability and death benefits programs were enacted in 1917. Dependency and indemnity compensation (DIC) was enacted in 1956. The programs are financed through open-ended Federal appropriations providing for direct payments to beneficiaries. They are administered through regional offices of the Department of Veterans Benefits, Veterans Administration.

For disability benefits a veteran must have contracted a disease, suffered a non-misconduct injury, or aggravated an existing disease or injury in the line of active duty, and have been discharged under conditions other than dishonorable. Death compensation and DIC benefits are available to a widow, child, or dependent parents of a veteran whose death was due to service.

There are no income tests for a disabled veteran, his wife, or children, but parents income is considered in determining their dependency. Similarly, there is no income test for widows or children, but benefits to parents of a deceased veteran are income-tested (again to determine dependency).

Disability benefits payable as cash are determined by: (1) the percentage of impairment; (2) marital status and sex of spouse; (3) number of entitled children; (4) dependency of parents; (5) need for special care; and (6) certain anatomical losses or loss of use of limbs or bodily functions. Benefits are extended for wives, children, or dependent parents only if the veteran is entitled to compensation for a disability rated at 50 percent or greater.

Under the death compensation and DIC programs, benefits are paid monthly as cash. The size of benefits is determined by: (1) the number of eligible children; (2) the sex and health of the surviving spouse; (3) the number, marital status, health, living arrangements and income of dependent parents; and (4) under DIC, the pay grade of the deceased veteran. There are no work tests under these programs.

## Old-Age, Survivors, and Disability Insurance

In FY 1977 an estimated \$81.9 billion will be paid to an estimated 33.1 million beneficiaries. Old-age insurance was enacted in 1935, survivors insurance in 1939, and disability insurance in 1956. OASDI is federally financed by payroll taxes on employers and employees which are maintained in Federal trust funds. It is administered by the Federal Government (HEW's Social Security Administration), with the contracting out of disability determinations to State vocational rehabilitation agencies.

About 90 percent of the nation's labor force works in employment covered by OASDI. For each calendar quarter of covered employment during which workers earn at least \$50, they are credited with a "quarter of coverage". Full retirement benefits are available to workers at age 65, provided they have sufficient quarters of coverage (40 or in some cases less). Survivors benefits are payable to dependents of deceased workers. Disability benefits are payable to workers who have 20 quarters of coverage out of their last 40, and who are found sufficiently disabled to be unable to earn a significant amount from employment for at least 12 months. Benefits also are payable to wives or dependent husbands of primary beneficiaries, children who are under 18 or who are 18-22 and full-time students, and some parents and grandchildren.

Benefit eligibility and payment amounts are not affected by receipt of unearned income, with the exception of beneficiaries entitled to both disability and workmen's compensation benefits (combined benefits may not exceed 80 percent of the worker's average current earnings before he became disabled). Earned income is subjected to the "retirement test". Under this test beneficiaries are allowed to earn up to \$3000 a year without benefit reduction. \$1 in benefits is subtracted for each \$2 of earned income above \$3000. Regardless of the amount of annual earned income, full benefits are payable for any month where earnings are \$250 or less, and for all months beginning at age 72.

Benefits are paid monthly in the form of checks issued by the Treasury. Benefit amounts are calculated according to a formula which is applied to a worker's average monthly earnings over his lifetime which were subject to the payroll tax. The five lowest years of earnings are dropped from the computation. Dependents of living workers receive 50 percent of the worker's benefit, subject to a family maximum. Aged widows receive 100 percent of the worker's benefit amount, and surviving dependent children receive 75 percent (again subject to a family maximum). Workers coming on the rolls at age 62 through 64 receive permanently reduced benefits. Benefit levels are weighted to give workers at the lower end of the benefit scale (minimum is currently \$108) a higher wage replacement ratio than workers at the high end of the benefit scale (maximum is currently \$387). The current average benefit to retired workers is \$224; the current average to aged couples is \$372; and the current average to disabled workers is \$242. Benefits are automatically adjusted each year by the increase in the cost of living. There are no work requirements as such under OASDI, but disabled beneficiaries must accept vocational rehabilitation services should their condition warrant them.



## Unemployment Insurance

In FY 1977 an estimated \$14.3 billion will be paid to an estimated 11 million beneficiaries. Unemployment Insurance was enacted in 1935. Unemployment Insurance was added for Federal civilian employees in 1954, and ex-servicemen in 1958. Amendments in 1970 and 1971 provided for extended benefits during periods of high unemployment. 1974 legislation established a temporary program of emergency benefits beyond the extended benefits program.

Legislation enacted in 1976 extended coverage to 40 percent of farm workers, to State and local government employees, and to certain domestic workers. (Overall, coverage is expanded from a pre-amendment 87 percent to a new 97 percent of total employment.) This also raised the gross Federal payroll tax from 3.2 to 3.4 percent and the taxable earnings base from \$4,200 to \$6,000.

UI is financed by Federal and State payroll taxes on employers. These taxes are deposited to individual State accounts within a Federal UI Trust Fund. States draw on their accounts as necessary to pay benefits; Congress appropriates funds from the Trust Fund for Federal and State administrative expenses. The program is administered by the Department of Labor's Employment and Training Administration through State employment security agencies and their local offices. The Federal Government establishes minimum UI program requirements for the States, and finances administration of the programs through grants-in-aid from the Federal UI trust fund.

The specific requirements for UI benefit eligibility are established by individual State laws. In general, however, a claimant must have earned a specified amount of wages in covered employment or have worked a certain period of time within his "base period", or both, to qualify for benefits. A claimant must be able to work, available for work, and free of any disqualifying factor (e.g., voluntary separation from work, unemployment due to labor dispute). Benefits are available to individual workers and, in eleven States, to their dependents.

A claimant's earned income in most States causes a dollar for dollar reduction in benefit amounts. Earned income from other family members is usually not counted in determining eligibility or benefit amount. Unearned income from investments is not counted either. In most States no benefits are payable for weeks in which a claimant receives workmen's compensation, social security, or benefits from certain pension plans. There are no assets tests.

Benefits are paid weekly in cash. Weekly benefit amounts are established by the individual States and vary, within certain minimum and maximum limits, with the worker's past wages during his base period. Currently, minimum weekly benefits range from \$10 in several States to \$35 in Indiana. Maximums range from \$63 in Texas to \$152 in Massachusetts. In most States the maximum duration of benefits is 26 weeks. In periods of high unemployment, either nationally or within a State, an extended benefit period may be "triggered", allowing a claimant to draw up to an additional 13 weeks of benefits subsequent to the expiration of the initial 26 weeks.



Because of recent high unemployment, a temporary emergency benefits program provides still another 13 weeks benefits should extended benefits be exhausted, and 13 weeks beyond that (for a total of 65 weeks) in especially high unemployment States.

All worker beneficiaries are subject to a work test -- they must be able to work and be available for work. They may be disqualified from benefits for refusal to apply for or to accept suitable work without good cause.

## Railroad Retirement, Disability and Survivors Insurance

In FY 1977 an estimated \$3.6 billion will be paid to an estimated 1.0 million beneficiaries. The Railroad Retirement Act of 1937 provided for payment of retirement and disability annuities; amendments in 1946 provided for survivor benefits; 1951 amendments added spouses benefits; and 1966 amendments added a supplemental annuity program. The Railroad Retirement Act of 1974 remade the program into a two-tier system, with Tier I being social security benefits based on combined railroad and non-railroad employment and Tier II a supplemental benefit based on railroad employment alone. The program is administered by the Railroad Retirement Board. Tier I benefits are financed by a combination of employer/employee payroll taxes, Federal general revenue funds, and transfers from social security trust funds. Tier II benefits are financed by an employer tax on the number of hours worked.

Tier I retirement benefits are payable to workers having at least 10 years of railroad employment. Retired workers may receive full benefits at 65, or at 60 with 30 years or more service. Reduced benefits are available to retirees having less than 30 years service at ages 62-64. Disability benefits are payable to those having 12 months railroad retirement out of the last 30. Tier II retirement benefits are payable at age 60 with 30 years service. Disability benefits are payable for the permanently and totally disabled who have completed 10 years service, and for the occupationally disabled after 20 years service. An aged wife of a retired worker may receive a benefit, as may an aged widow, a widow with dependent children in her care, and dependent children.

Entitlement to benefits is subject to a strict retirement test. Workers, spouses, or survivors may not receive benefits for any month in which they are employed by the railroad industry. Eligibility for a Tier II benefit is permanently lost if a beneficiary works for the railroad after retirement. The Social Security component of benefits is subject to the social security retirement test (see above). The form of benefits is monthly cash payments. Annuities are composed of Tier I benefits (as computed under the social security benefit formula on the basis of an employee's combined railroad and non-railroad earnings) and Tier II benefits (based on railroad service only). Spouses generally receive one-half of the primary worker's amount. There is no work test under railroad retirement.

### Special Benefits for Disabled Coal Miners (Black Lung Program)

In FY 1977 an estimated \$950 million will be paid to 480,000 beneficiaries. The Black Lung Program was enacted as a part of the Coal Mine Health and Safety Act of 1969. It is financed through open-ended Federal appropriations from general revenues. The Social Security Administration handled all claims through June of 1973, after which the handling of most new claims was transferred to the Department of Labor. SSA continues to make benefit payments and adjustments for all claims under its original jurisdiction, and also takes new claims under contract with the Department of Labor.

To receive benefits an individual must be (1) a coal miner totally disabled due to pneumoconiosis (black lung) arising out of employment in a coal mine; or (2) a widow, orphan, dependent parent, brother, or sister of a coal miner who was totally disabled from black lung at death or whose death was caused by black lung. Miner's and widow's benefits are increased where there are dependents. Benefits of miners are subject to the social security retirement test on all earned income (i.e., benefits are reduced by \$1 for each \$2 of earned income above \$3,000 per year). Unearned income is disregarded, with the exception of a dollar for dollar reduction against any State workmen's compensation payments, unemployment compensation, or State disability insurance payments received because of the miner's disability.

Benefits are paid monthly in the form of checks. The basic benefit payable to a miner or widow is currently \$205.40 per month. This benefit is increased by 50 percent if the miner or widow has one qualified dependent, 75 percent for two dependents, and 100 percent for three or more dependents. There are no work requirements for benefit eligibility.

Medicare

In FY 1977 an estimated \$21 billion will be paid to or on behalf of an estimated 20.8 million beneficiaries. Medicare was enacted in 1965 to cover the medical expenses of the aged. Coverage was extended to disability insurance beneficiaries and chronic renal disease patients in 1972. Medicare is composed of two programs -- hospital insurance (HI) and supplemental medical insurance (SMI). HI is financed by payroll taxes levied on employers and employees which are maintained in a Federal Trust Fund. SMI is financed by a combination of beneficiary premiums (\$7.20 per month) and Federal general revenue financing, all maintained in a Federal trust fund. The programs are administered by the Social Security Administration, which contracts the certifications of health card providers to State health agencies, and contracts the payment of claims to intermediaries such as Blue Cross plans and private insurance companies.

To be eligible for HI individuals must be: (1) 65 or over and entitled to social security or railroad retirement benefits; (2) disabled and eligible for social security or railroad retirements benefits for 24 or more consecutive months; or (3) chronic renal disease patients who have social security coverage. SMI coverage is available to any of the above who enroll for it and pay the monthly premium. Coverage and payments focus on the individual as a filing unit. There are no income tests or assets tests as a condition for eligibility, or as a condition for the amount of benefits paid. Benefits are usually in the form of payments to third parties (e.g., hospitals, physicians) for expenses covered under Medicare, although in some cases cash payments are made to beneficiaries as reimbursement for medical bills already paid by the individual.

Under HI, payments are made to providers of services (e.g., hospitals) for up to 90 days of in-patient hospital care per benefit period (subject to a \$104 deductible and \$26 per day co-insurance for the 61st through 90th day), 100 days post-hospital extended care per benefit period (subject to \$13 per day co-insurance for the 21st through 100th day), and 100 post-hospital home health care visits per year. Under SMI, payments are made (subject to a \$60 per year deductible and 20 percent co-insurance) for physicians' and surgeons' services, out-patient hospital services, and home health care visits (100 per year with no co-insurance).

There are no work requirements in medicare.



## General Assistance

General Assistance is a generic name for a wide variety of income maintenance programs financed and administered solely by State and local governments. These programs are expected to provide between \$1.2 and \$1.5 billion in transfers in FY 1977. Each month benefits are provided to approximately 900,000 recipients.

General Assistance programs date back to an early period when States had programs to serve paupers and indigents. The programs were somewhat more important before the development of the federally assisted income support programs. For example, during some months of the Great Depression, there were more than 5 million GA recipients.

General Assistance programs are known by a variety of names including: General Relief, Emergency Relief, Home Relief, and General Assistance. The most common forms of assistance are cash or vendor payments for items including food, rent, utilities, or medical services.

The basic eligibility condition is need, but definitions vary among and within States. Determinations may be based on the type and extent of need related to available income, rather than on a uniform income criteria. Other factors determining eligibility normally relate to employability, residence, assets, eligibility for federally assisted income transfer programs (those found eligible for AFDC, AFDC-UF, and SSI are often ineligible for General Assistance), and the presence of relatives legally required to provide support.

Standards of assistance are substantially the same as those in federally assisted programs in about one third of the States. Other States use standards that are either less generous or very different from those in federally assisted programs.

Income definitions generally are very inclusive, although some programs do permit the deduction of tax payments and work related expenses. For emergency or short-term assistance, current income is considered. For continuing assistance, a monthly accountable period is used.

Most General Assistance programs have work requirements for able-bodied recipients; some programs require work relief as a condition of benefit receipt.

## Veterans Pensions

An estimated \$3.1 billion will be paid to 2.3 million cases in FY77, including one million veterans and 2.6 million dependents and survivors.

The Veterans Pension Program was enacted in 1933. In 1960, changes were made to lower benefit reduction rates below 100 percent, and to take into account the number of dependents in determining benefits.

The program is administered through the regional offices of the Department of Veteran Benefits, Veterans Administration. It is financed by the Federal Government.

Recipients must have 90 days or more of active wartime duty, or have been released because of a service-related disability. In addition, they must be permanently and totally disabled or over 65.

Filing units consist of eligible veterans and their spouses, children under 18, children 18-22 who are students, and adult disabled children. The maximum benefit for a veteran with no dependents is \$1920 a year, and the minimum benefit, received at the annual countable income limit of \$3000, is \$60 per year. For a veteran with one dependent, the maximum benefit is \$2064, and the minimum benefit of \$168 is received at the income limit of \$4,200. Benefits are reduced by between 36 and 96 cents for each dollar of countable income. The exact benefit reduction rate varies with the number of dependents and the amount of income received.

Certain income is excluded from countable income -- the first \$1200 or the spouse's earnings (whichever is greater), children's earnings, welfare, and 10 percent of social security benefits. An annual accounting period is used.

There are no work requirements in the Veterans Pension Program.

### Aid to Families with Dependent Children (AFDC)

The estimated costs of AFDC for FY 77 are \$10.3 billion (Federal share \$5.7 billion) with benefits going to an estimated 11.4 million recipients.

AFDC was enacted in 1935 to provide aid to needy children. In 1950, coverage was extended to needy parents, and in 1961 families with unemployed fathers could be included at the States' option (UF program).

AFDC is a joint Federal, State, and (in some States) local program. The Federal share of payments varies from State to State ranging from 50 to 90 percent. More limited Federal sharing is provided for Puerto Rico, Guam and the Virgin Islands. The program is administered by State and local governments, and the Federal Government pays 50 percent of the Administrative costs.

AFDC benefits are limited to families with children lacking parental support due to death, continued absence, and physical or mental incapacity, and at the States' option, because the father is unemployed. Children must be under 18, or, at State option, 18 to 21 and in school.

Families in which the father is unemployed may receive benefits if the father is unemployed (including employment of less than 100 hours a month) for 30 days, and has had previous employment in 6 or more quarters in a 13 calendar quarter period prior to application, or was qualified for unemployment compensation within one year prior to application. Applicants must apply for and accept unemployment benefits for which they are eligible.

Benefits are reduced one dollar for each dollar of unearned income, except for small amounts that are excluded, at State option, in a few States. Child support payments are paid to the administering agency as reimbursement of assistance paid and do not reduce the benefits to the family. (A child support enforcement agency in each State, authorized under the Social Security Act, has responsibility for locating absent parents and enforcing support. Support enforcement services are also available to non-recipients).

The treatment of earned income is such that the benefit is reduced 67 cents for each dollar of earned income above the first \$30 per month. Reasonable work expenses and child care expenditures are subtracted from countable income, which has the effect of decreasing the benefit reduction to less than 67 cents on a dollar of earnings for workers with such expenses.

In 13 states, the method of calculating benefits results in additional exclusions of earned or unearned income. When the maximum amount payable is less than the payment standard (amount from which countable income is deducted to determine the benefit), the benefit is not reduced until countable income exceeds the difference between the payment standard and the maximum payable amount; or, when a State pays only a percentage of the difference between the payment standard and countable income, the benefit is reduced by less than the amount of countable income.



Benefits are paid in cash. Levels vary from State to State, and by family size. Benefit levels for a family of four with no other income range from \$720 a year in Mississippi to \$5964 in Hawaii. A monthly accounting period is used.

Non-exempt participants must register for the WIN (Work Incentive) program and may not refuse training and employment. Exempt persons include children under 16 or in school, the aged and disabled, mothers with children under 6, custodians for ill or incapacitated persons, and persons living too far from a WIN training or employment program to participate. In States with UF, the father must be registered with the State employment office. Refusal of a non-exempt recipient to participate in WIN will cause that person, but not the whole family, to become ineligible. In UF, refusal of the father to accept employment and in some States, refusal of a parent to accept any available employment (i.e., employment offered through sources other than WIN) makes the family ineligible.

The Work Incentive (WIN) program is designed to assist AFDC recipients to become self-supporting through a program of employment, work experience and training. Employment and training programs are administered by the Department of Labor. Childcare and other supportive services are administered by HEW. Grants to States (FY 1977, \$352 million) provide 90 percent of total costs. About 1.3 million AFDC recipients will register with WIN and 555,000 will receive WIN services in FY 1977.

In emergency assistance program, with 50 percent of Federal sharing in costs, permits States to provide temporary (30 days in a calendar year) assistance to families with children who are without available resources, for reasons other than refusal to accept employment or training, to avoid destitution or to maintain a home for the children. About one-half of the States have elected to administer this program, at a cost of \$68 million in FY 1977.



## Section 8 Housing Assistance

In FY 1977, \$1.1 billion was authorized for the Section 8 Housing Assistance program, enough to provide assistance to over one million households.

(Because of start-up problems, however, a relatively small part of the authorization has been spent.) The program was initiated in 1974 as an amendment to the Housing Act of 1937, and was intended eventually to replace the more traditional forms of housing subsidy. The program is funded through annual appropriations to HUD, which enters into annual contribution contracts with local housing agencies that, in turn, may enter into subsidy contracts with owners of rental housing on behalf of low income families.

To be eligible for Section 8 assistance, a family must have total income below 80 percent of the area median income (at the time of application). Income is defined comprehensively, although some exclusions are allowed, and is estimated on a prospective, annual basis. There is no assets test, but income is imputed, at a rate of 10 percent per year, to assets in excess of \$5000. There is no work test or job search requirement.

Benefits are in-kind, but are not as restrictive as traditional public housing. The certified family pays an income-conditioned rent to the owner of an eligible rental unit, and the local housing authority makes up the difference between the income-conditioned rent and the market rent (which cannot exceed 110 percent of the area "fair market rent" established by HUD). The family contribution to rent is 15 or 25 percent of family income. A large, very low-income family, or a family with exceptionally high medical expenses, pays 15 percent of countable income; all other families pay 25 percent of countable income, but no less than 15 percent of gross annual income. The assistance benefit to the family, then, is the amount paid to the landlord - the difference between 15-25 percent of family income and the market rent.

## Other Housing Assistance

In addition to the recent Section 8 program, HUD funds several other housing assistance programs, including traditional public housing, home ownership assistance (section 235), rental housing subsidies (section 236), elderly housing subsidies (section 202), and many other supplier subsidy programs. Total low income housing subsidy payments, including Section 8, are estimated to reach \$3.0 billion in FY 1977, about half of which is paid to local housing authorities in contributions to public housing programs. About 3.0 million families now receive some type of housing assistance.

### Food Stamps

Food Stamp expenditures for FY 77 are estimated at \$4.5 billion. An estimated 17.7 million recipients will receive benefits in a typical month.

The Food Stamp Program was enacted in 1964. It was amended in 1971 to establish national standards and to require work registration. In 1974, coverage was extended to all 50 States, the District of Columbia, Puerto Rico, Guam and the Virgin Islands.

Food Stamps are administered by the Food and Nutrition Service of USDA through State and local welfare offices. The Federal Government finances 50 percent of all administrative costs and 100 percent of the transfer costs. Program coverage is universal, including intact families with a working member, single adults and childless couples. All persons in a household living as one economic unit (not necessarily families) file together.

Households in which all members are recipients of public assistance (AFDC, SSI, GA) are automatically eligible for food stamps (although the purchase requirement, described below, is determined by household union), except that SSI recipients do not receive food stamps in States that have added the cash value of the food stamp bonus to the rates supplementary SSI benefit (California and Massachusetts).

Countable income in the Food Stamps Program is net of expenses (including mandatory payroll deductions), childcare expenses, medical expenses, and a portion of excessive shelter costs. Public assistance benefits are included as income. Anticipated income is averaged over the certification period, which is usually 3 months, but which may vary from 1 to 12 months.

Benefits are received in the form of coupons, which can only be used for the purchase of food items. The face value of the food stamps received varies with family size. The purchase requirements, which is the amount of money a household must pay for the stamps, varies with income. The program is constructed such that the purchase requirement increases by an average of 30 cents for each additional dollar of net income. For instance, a four-person household with \$225 net monthly income pays \$59 for \$166 worth of food stamps (bonus value, \$107). A similar household with the maximum allowable net income of \$553 pays \$142 for the same amount of food stamps (bonus value, \$24).

Able-bodied recipients ages 18-65 must register for work and accept a bona fide offer of suitable employment. Mothers with children, children, students, and those already working at least 30 hours a week are exempt from the work registration requirement. The whole household becomes ineligible if any member refuses to work.



## Medicaid

Estimated FY 1977 Medicaid expenditures total \$17.2 billion, \$9.7 billion of which constitute the Federal share. An estimated 24.7 million individuals will receive some benefits.

The Medicaid program (Title XIX of the Social Security Act) was enacted in 1965 in order to consolidate and expand grants-in-aid to States and Territories for medical assistance to welfare recipients, and, at State option, to the medically indigent (whose income precludes eligibility for categorical cash assistance but is insufficient to pay full medical costs).

Medicaid, like AFDC, is a joint Federal-State program. (Each State may choose whether or not to participate; only Arizona has no Federally reimbursed program.) The Federal share of payments to medical care providers varies from 50 to 79 percent, depending on relative state per capita income. More limited Federal sharing is provided for Medicaid programs in Puerto Rico, Guam and the Virgin Islands. The program is administered by State and local governments; the Federal Government pays for more than half of the administrative expenditures, the exact share depending on a complex formula of various sharing rates for various administrative expenses.

Two types of families are eligible for Medicaid benefits: Those who are recipients of either AFDC or SSI; and those who would be categorically eligible for AFDC or SSI, and whose income is no more than one-third greater than AFDC basic benefit levels when their medical expenses are deducted from their incomes. (The latter category, the "medically indigent", are covered in only 25 States and D.C. Most of these States limit eligibility to less than 133 percent of AFDC standards.) Some other categories may be covered at State option.

Benefits are medical care services, some mandatory and some optional, for which payment is made on behalf of recipients. Limited cost-sharing (related to income) is permitted on a number of services, and several States have used this feature. For most AFDC recipients, and the majority of SSI recipients, covered medical services are free. With respect to SSI recipients, fourteen States have elected the option of extending medical assistance eligibility only to those SSI recipients who meet the eligibility conditions for Medicaid that were in effect in the State in 1972. In all States the SSI benefit level is reduced when they are in a medical institution more than 30 days and more than one-half of institutional costs are paid by Medicaid; and they may be required to pay a portion of their income toward the institutional costs.

For the "medically indigent" and for SSI recipients in States electing the 1972 eligibility option, there is a "spend down" provision that requires these individuals or families to spend for medical care any income in excess of the eligibility level before medical assistance payments can be made for them.

The categorical eligibility of public assistance recipients creates a "notch" in Medicaid benefits. As long as they are eligible for AFDC (or SSI, with the above noted qualifications, their medical expenses are paid in full; but if they should increase their earnings so as to leave public assistance, they precipitously lose all medical benefits. Thus, a small increase in earnings can result in a sharp drop in total income. (There is no such "notch" for the medically indigent, but the "spend down" acts, in effect, as a 100 percent tax on earnings above the medical assistance eligibility level). The notch effect is alleviated somewhat by the extension of Medicaid eligibility for four months after a family loses AFDC benefits because of earnings, and by health insurance benefits if available through employment.

The accounting period for the medically indigent in the Medicaid program is not specified in legislation but is generally, in practice, six months prospective. The assets tests for categorically eligible recipients are the same as for AFDC or SSI but may be somewhat more liberal for the medically indigent. There is no work test.



### Basic Education Opportunity Grants

An estimated 1.9 million persons will receive an estimated \$1.8 million in BOGS payments in FY77. The program was enacted in 1972. It is Federally funded, and is administered by HEW's Office of Education.

BOGS is designed to benefit low-income post-secondary students. A student of any age may qualify for a grant if he is enrolled at least half-time in an accredited school. As a general rule, a school is accredited for the purpose of the BOGS program if it requires a high school diploma for admission.

A student usually qualifies on the basis of his parents' income. In some instances, the student is considered independent, in which case his parents' income is disregarded. The grant is calculated by taking \$1400 minus the family's expected contribution or 1/2 of the cost of attendance, whichever is less. Included in the cost of attendance are tuition, room and board, and a flat \$400 for books, commuting, etc.

The expected contribution is calculated by first summing adjusted gross income and non-taxable income and transfers, less allowable deductions. Allowable deductions include the poverty threshold, medical and casualty expenses, paid Federal income tax, and a housekeeping allowance for single parent and two-worker households. Then, 20 percent of the first \$5000 and 30 percent of the remainder are added to the asset tax to arrive at the family's expected contribution. The asset tax is 5 percent of net market value after an exemption of \$12,500 (or \$25,000 in the case of farm or small business families).

The accounting period used is the calendar year prior to the year of the grant. Certain grants may be reevaluated if the estimated current year income is much greater than that of the previous calendar year.

### Supplemental Security Income for the Aged, Blind, and Disabled. (SSI)

In FY 1977 an estimated \$6.3 billion will be paid to an estimated 4.4 million beneficiaries (2.2 million aged; 2.2 million blind and disabled). Of this \$6.3 billion, \$4.7 billion will be Federal basic benefits, and \$1.6 billion will be State supplements. SSI was enacted in 1972, and implemented nationwide in January, 1974. All costs of benefits and administration for Federal basic benefits are funded through open-ended appropriations from general revenues. States are responsible for financing benefits under State supplementation (with the exception of payments above a "hold harmless" level), and the Federal Government pays administrative costs for all federally administered State supplements. The program is administered by the Social Security Administration in the 50 States and the District of Columbia. Puerto Rico, Guam, and the Virgin Islands continue to administer federally reimbursed programs of Aid to the needy Aged, Blind, and Disabled.

Individuals age 65 or over, or blind and disabled individuals (same definition of disability as is used for social security disability insurance) are eligible for benefits if their income and assets are below specified limits. Eligible individuals may file, or if a spouse is also eligible as an aged, blind, or disabled person, they are eligible as a couple. Limits on income for purposes of eligibility are \$503.40 a quarter for an individual and \$755.40 a quarter for a couple. However, in computing income \$60 per quarter of any kind of income is not counted. In addition, \$195 per quarter of earned income is disregarded. Above that there is a deduction of \$1 in benefits for each \$2 of earned income.

There is an assets test of \$1,500 for an individual and \$2,250 for a couple. A home is not counted within these limits, nor is an automobile worth less than \$1,200, household goods and personal effects worth less than \$1,500, nor life insurance policies having a face value of less than \$1,500.

The basic Federal benefit to an individual is a monthly cash payment of \$167.80 (\$251.80 for a couple). This benefit is reduced by \$1 for each \$1 of unearned income over \$20 a month, and each \$2 of earned income over \$65 (or \$85 if there is no unearned income). When an individual or an eligible couple lives in another person's household and pays less than a pro rata share of household expenses, the benefit level is reduced by one third. Benefits are automatically adjusted each year to the cost of living. There are no work requirements.

The 1972 law gave States the option to supplement Federal SSI payments. In July, 1973 an amendment required States to make supplementary payments to recipients of former assistance programs being transferred to SSI up to the level of their December, 1973 assistance payments (i.e., States were required to supplement up to a level that would assure that no SSI beneficiary suffered a drop in benefits). The State of Texas is exempted from this requirement because of a State Constitutional impediment. The number of mandatory supplement recipients now is negligible in a few States. About 42 percent of all SSI recipients receive a State supplement. Some States supplemented all recipients, while some tailor supplements to an individual's unique needs situation (most commonly, need for institutional care).

### The Earned Income Tax Credit

The earned income tax credit is expected to provide about \$1.3 billion in benefits to 6.3 million tax units in fiscal 1977.

The earned income credit is a Federal program operated by the Internal Revenue Service as a provision in the Federal Income Tax.

The earned income credit first applied to calendar year 1975 tax returns. The credit has been extended through tax year 1977.

Individuals and couples maintaining a household that is the principal place of abode of an own or adopted child who is either under 19, 19 and over and in school, or 19 and over and disabled are potentially eligible for the credit.

The earned income credit is equal to 10 percent of earned income up to a maximum credit of \$400. The credit is reduced by 10 percent of the amount by which adjusted gross income exceeds \$4000; therefore, tax units with annual adjusted gross incomes in excess of \$8000, do not qualify for a credit.

The earned income credit may either be used to reduce positive tax liabilities or may be refunded to the extent that the credit exceeds positive tax liabilities.

The credit is based upon income and earnings over the calendar year for which taxes are being filed.



## APPENDIX B

### Glossary

Accountable Period -- The time period over which countable income is measured to determine eligibility and benefit payments.

Basic Benefit Level -- The benefit received when the recipient has no income or, in some programs, no countable income. This is also the maximum benefit, and is sometimes called the guarantee.

Benefit Reduction Rate (Marginal Tax Rate) -- The amount by which benefits are reduced when a recipient's countable income is increased by one dollar. For example, a 30 percent benefit reduction rate means that when a recipient's countable income increases by one dollar, benefits are reduced by 30 cents. Thus, the recipient will retain 70 cents out of an additional dollar of countable earned income.

Breakeven Level -- In a welfare program, the level of countable income at which the recipient ceases to receive any benefits from the program.

Cash Out -- Replacing an in-kind or voucher program with a roughly equivalent amount of cash benefits.

Categorical Programs -- Transfer programs in which eligibility is defined not only by income, but by additional factors, such as demographic characteristics (for example, age, number of parents present, disability).

Categorical Eligibility -- Being eligible for one program (e.g., Medicaid) because of being a participant in another program (e.g., AFDC).

Countable Income -- The income measure used to determine program eligibility and benefit level. It is a "net income" in that it is income remaining after disregarding certain amounts, excluding certain types of income, and deducting allowable expenses.

Cumulative Tax or Benefit Reduction Rate -- In cases where an individual receives benefits under two or more welfare programs, each of which is subject to a marginal tax rate, the cumulative tax rate is the combined effect of the two or more marginal tax rates. If a cumulative tax rate is 80 percent, each \$1 of countable income earned will cause an 80 cent reduction in benefits paid.

Deduction -- In arriving at countable income, certain expenses may be deducted from gross income. Examples of deductions include work expenses (payroll taxes, transportation costs), medical expenses, and high shelter costs.



Disregard (Set Aside) -- Income which is not included in calculating countable income. In SSI, for example, the first \$20 per month of unearned income and the first \$65 of earned income per month are "disregarded" in determining countable income.

Filing Unit -- The person or group of persons which may (or must) apply to receive benefits.

Horizontal Equity -- People in similar circumstances (for example, in similar need) should receive similar treatment.

Income Assistance -- Commonly known as "welfare". Transfers based on the recipient's income. Sometimes referred to as "means-tested" or "income-tested" programs.

In-kind Benefits -- Transfer benefits that come directly in the form of a good or service. Includes voucher payments whose use is restricted to the purchase of specific goods or services.

Intact Family -- A family with both parents present in the home.

Low Income Population -- A generic term for individuals and families in the lowest quintile, quartile, etc. In some usages, equivalent to the poverty population.

Marginal Tax Rate -- See Benefit Reduction Rate.

Need Standard -- Under the AFDC program, the need standard is the amount of money recognized by a State as the level required monthly for meeting basic needs (including shelter) for a family of specified size. In most States, it is this amount against which income from all sources, after application of income allowances and disregards provided by law, is compared to determine financial eligibility for AFDC. Use of a need standard for determining eligibility and the amount of the assistance payment is mandatory upon States. The payment standard is the amount of money from which is deducted the income available for basic needs (total income less income allowances and disregards provided by law) to determine the amount of the AFDC payment for a family of specified size. The payment standard may be equal to or less than the need standard. The largest amount paid for basic needs (which in some States is less than the payment standard) is the maximum payment or the largest monthly amount that can be paid under State law or agency regulations to the specified assistance family.

Notch -- An extreme case of high benefit reduction that occurs when a very small increase in countable income causes a very large drop in benefits (for example, moving over the AFDC income ceiling and thereby losing all Medicaid benefits).

Poverty -- Poverty thresholds were developed by the Social Security Administration and are updated annually. The poverty threshold for a nonfarm family of four persons was \$5038 in 1974 and \$5820 in 1976.

Social Insurance -- Transfers based in part on minimum employment, payment by employee and/or employer or payroll taxes, and the occurrence of a risk-covered event (examples include unemployment compensation and social security).

Target Efficiency -- The extent to which benefits go to those who "need" them; need is generally defined in terms of income. (e.g., the proportion of all benefits under a particular program that goes to families with incomes below the poverty line is one measure of target efficiency.)

Transfers -- Benefits received from the government which are not in payment for goods or services, and financed out of taxes.

Vertical Equity -- Those in relatively greater need should receive relatively larger benefits; those who earn more should have relatively larger disposable incomes.

Vouchers -- Another form of non-cash benefits. In lieu of receiving the good or service directly, vouchers are purchasing power that is restricted to a particular category of goods or service (food stamps, for example).

Welfare -- Transfers where the benefits are based on the recipient's income. Welfare programs are sometimes referred to as "means-tested" or "income-tested" programs. "Income assistance" program is a category that is frequently used synonymously with "welfare".

Work Requirement -- A program requirement by which benefit eligibility is conditioned upon job search, job training, vocational rehabilitation, or other measures intended to return an individual to employment.